California Budget Summary 1990-91

George Deukmejian

George Deukmejian
Governor
State of California

California Budget Summary 1990–91

George Deukmejian
Governor
State of California

Table of Contents

State of California
GOVERNOR'S OFFICE
SACRAMENTO, CA 95814

GEORGE DEUKMEJIAN
GOVERNOR

September 14, 1990

To the Members of the State Legislature
and the People of California:

The eighth and final budget of my Administration represents the culmination of our efforts to provide a sound, fiscal foundation for California and to meet the needs of our rapidly growing population.

The 1990/91 budget totals $55.7 billion, an increase of 121 percent over the first budget I signed into law in 1983. With this record level of funding, we have been able to provide substantial increases in virtually every government service and program.

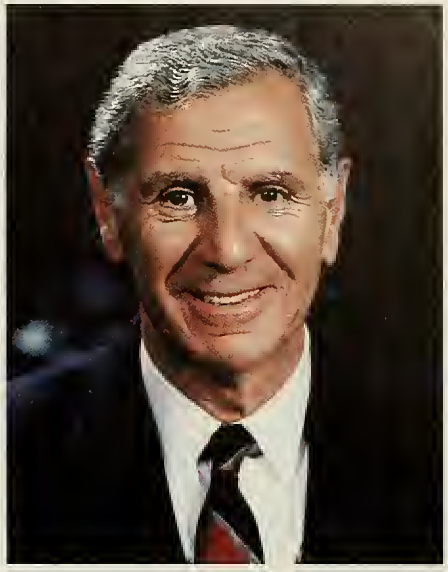
Spending on Kindergarten through 12th grade education, for example, has risen 115 percent, while student enrollment has grown just 23 percent during this same period. Total funding for Health and Welfare programs this year will top $26 billion, up from $15.5 billion when I first become Governor. Over $2.3 billion will be spent for our state prison system in the coming year -- an increase of 320 percent since 1982/83.

Yet most importantly, we have provided these funding increases for vital services while holding the line on taxes, establishing a prudent reserve for emergencies and balancing the budget eight years in a row.

Indeed, while I inherited a budget deficit eight years ago, I will turn over to my successor a balanced budget and a prudent reserve as required by the state constitution.

One of the most notable features of the 1990/91 budget is that it is accompanied by structural budget reform.

For a year and a half, I had called on the Legislature to enact fundamental reforms that would address the fact that legally required spending increases, federal and judicial mandates, and ballot initiatives such as Proposition 98 have locked over 90 percent of the state budget into place.



Moreover, many of these budgetary requirements and restrictions are programmed and pressured to grow according to formulas that have no relationship to the growth of state tax revenues.

This year, the Legislature and my Administration reached agreement on a number of steps that would tie budget state spending growth to what we can afford to spend, rather than to external, artificial formulas. Among the reform measures I signed into law was the enactment of a new, long-term budget reform mechanism that will provide for automatic suspensions of spending when and if future state budget shortfalls loom.

With this new measure and other changes that were part of this year's budget agreement, California has made significant progress in its efforts to unlock the budgetary gridlock that has put a stranglehold on our fiscal well-being in recent years.

Still, we recognize that there will be major budgetary challenges in the years to come. Our state's population now tops 30 million and the demand for state funded services will continue to grow.

California needs to provide expanded services for our growing population without excessive taxation, which would cost badly needed new jobs for that same population.

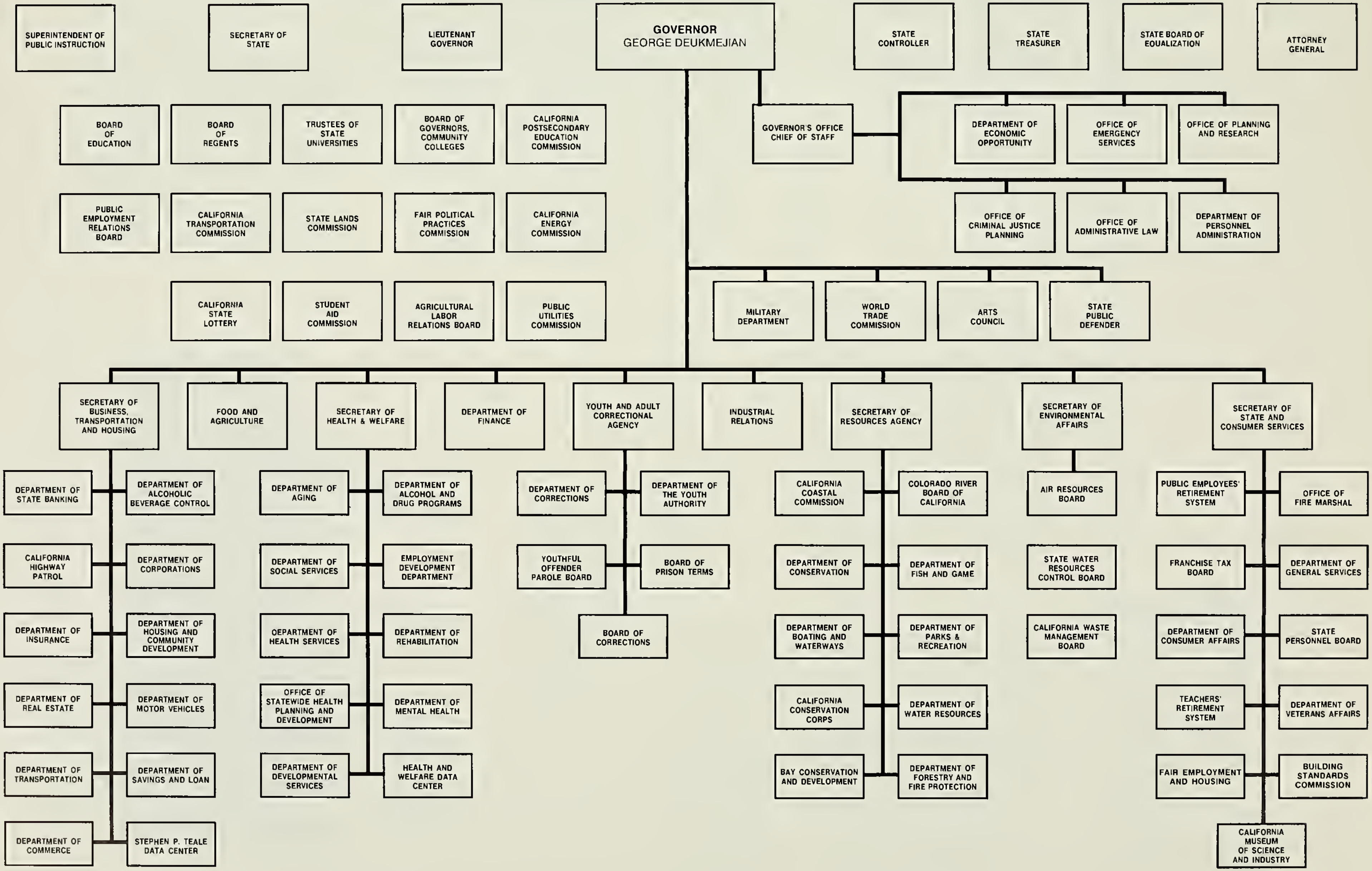
Over the past eight years, we have achieved that balance, as evidenced by the creation of 3.2 million new jobs, a budget increase of 121 percent, and removal of California from the dubious ranks of "high tax" states.

Most cordially,

George Deukmejian

George Deukmejian

CALIFORNIA STATE GOVERNMENT THE EXECUTIVE BRANCH



California's Economy

Clearly, our key challenge in this new decade will be to maintain our economic prosperity and quality of life in the face of astounding population growth and tough global competition.

Governor George Deukmejian
September 1990

Economic Growth

California's economy has consistently outpaced the nation over the last seven years, and appears certain to repeat this performance in 1990 and 1991. Overall, economic growth will slow.

The broadest based measure of growth available for California is personal income. Annual gains in percentage terms have consistently been greater than those recorded for the U.S. Even in 1989, when the Loma Prieta earthquake reduced the state's income by 0.5 percent, California's income gain was still a half percent more than the national increase.

The latest forecast for 1990 calls for income of $621.8 billion, with a further rise to $674.1 in 1991. This compares to a level of $328 billion in 1982. In the last eight years, California personal income has increased by almost 90 percent. Per capita income in 1989 reached $19,929, up 50 percent from the 1982 level. The gain would have been even greater without the negative effects from the earthquake. By the time the books are closed on 1990, average income will be well over $20,000, with California the seventh or eighth highest per capita income state in the nation.

All told, the latest economic outlook for 1990 and 1991 remains not much different from that included in the Governor's January Budget. This update was prepared in early May, prior to this summer's events in the Middle East. However, assuming a relatively quick and satisfactory solution to the crisis, the impact on the California economy should be minimal.

Special factors

The 1989 and 1990 data reflect the impact of two circumstances which distort the data. First, the Loma Prieta earthquake reduced income by about $3 billion—$2.3 billion in rental income, representing uninsured damage to residential structures, and about $700 million in nonfarm proprietors' income for uninsured damage to unincorporated businesses.

In addition, the data continue to be affected by the timing of bonus payments in personal service corporations. These corporations were set

Figure 1-A

Growth in Personal Income

(Percent Change)

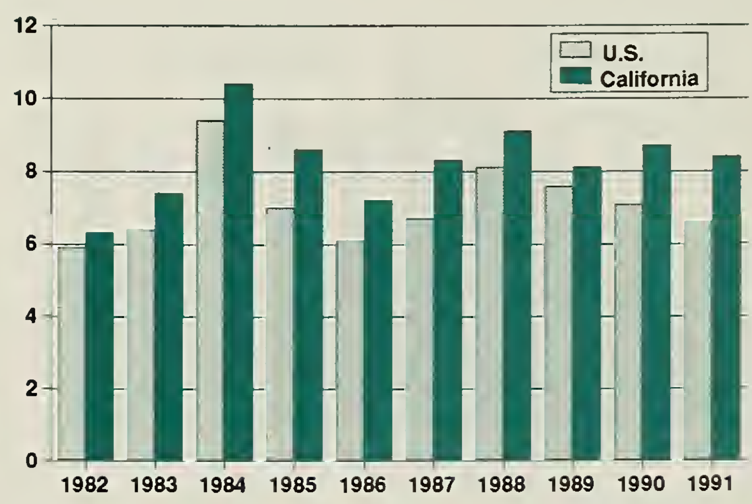


Figure 1-B

Nonagricultural Wage and Salary Employment

(In Millions)

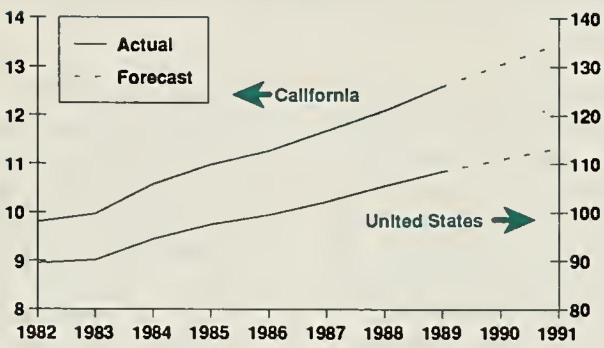
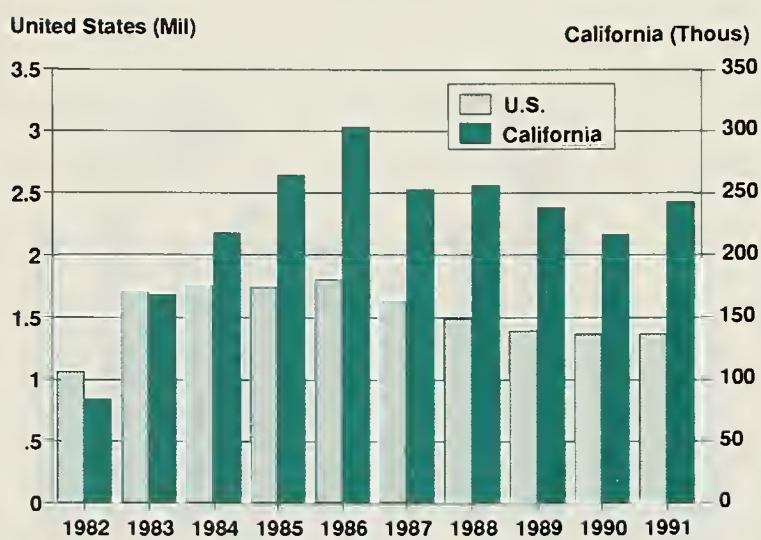


Figure 1-C

New Housing Units



up in earlier years by doctors, lawyers and other professionals to take advantage of corporate tax rates which were then lower than individual rates. This situation was reversed by the Federal Tax Reform Act of 1986, and earnings retained in these corporations now result in higher taxes than wages paid out to the owner. Resulting pay-outs in the fourth quarter have been unexpectedly large in recent years and have distorted various official statistics.

Excluding the earthquake distortion, underlying income growth in 1989 was about 8.6 percent, compared to the 8.1 percent actually reported. In 1990, restoration of the quake-related rental and proprietors' income adjustments adds about 0.5 percent to reported income, while quake rebuilding contributes a further 0.3 percent.

Jobs

California's income growth is largely dependent on the level of employment in the state. Here again, California has maintained a strong edge over the nation. Since 1982, California has accounted for roughly one out of every seven new jobs created in the U.S. Recent data suggest that ratio will be closer to one out of five in 1990 and 1991. The total number of jobs in California has increased by 3.2 million from 1982's level of 9.8 million to 13 million in 1990.

The jobless rate in the state has reflected this growth, falling from a high of 11.2 percent at the end of 1982 to a low of 4.9 percent as recently as June 1990. Even more significant, the state's unemployment rate has been below or equal to the national average for 53 of the last 58 months—a relationship not seen since the late 1950s.

The outlook for jobs for both 1990 and 1991 is roughly 140,000 higher than in the January Budget. Growth in 1990 is now at 3.6 percent, compared with the 3.1 percent expected when the January outlook was prepared. The projected 1991 gain of 3.3 percent is about the same as the 3.4 percent increase included in the Budget.

The state's unemployment rate is expected to hover near 5 percent both this year and next, reflecting the favorable economic situation in California.

Manufacturing is getting increased attention because of potential cuts in the defense budget. However, these concerns mask one of the most significant aspects of growth in California: manufacturing has been a significant contributor to the economy over the last seven years. Between 1982 and 1989, in fact, California accounted for one-fourth of all new manufacturing jobs created in the U.S.

Additionally, the relative importance of the defense sector in California has declined dramatically since the 1960's as other sectors of the economy have outperformed defense. As a result, the proportion of total income derived from the defense sector is half what it was 25 years ago.

High Technology

A large part of California's growth has been due to high technology manufacturing. This sector is currently going through a readjustment process; employment levels have been reduced moderately with declines of 15,000 jobs this year and 11,000 in 1991. Aerospace employment, where most of the defense cuts will be felt, is expected to be down about 4 percent both this year and next. Cuts will be held to this moderate range due to the fact that defense adjustments will occur over several years, facilitating an orderly down-scaling or reorientation to other business for firms in this industry.

The other half of high technology, electronics, is oriented more toward civilian or commercial markets. This industry has been experiencing a slowdown from the double-digit growth of recent years, reflected in essentially flat employment levels in 1990. A modest upturn is expected for 1991, as economic growth generally, and investment in particular, get back to more normal levels.

Housing

In the eight years since 1982, nearly 1.9 million new housing units will have been built in California. This is one-third more than in the previous eight years.

The outlook for housing has been lowered somewhat as the year has progressed due to persistent high mortgage interest rates. The number of units authorized is now estimated at 217,000 units for the current year, down more than 20,000 from 1989 and 10,000 less than in the January Budget forecast. Even at this level, California continues to account for about 17 percent of all new homes built in the U.S.

The construction industry has also expanded markedly over the past eight years. In 1982, California accounted for 8.9 percent of all construction jobs in the nation. That share is now nearly 13 percent, as growth continues to slow dramatically in the rest of the country.

Demographics

California's economy has benefitted from a number of characteristics naturally occurring within its population. First is the growth in the state's population which hit 30 million people in September 1990. The state's population has grown 26.7 percent since the 1980 census and continues to grow at the rate of 2.7 percent per year with net migration accounting for well over half of the gain. Secondly, a greater proportion of California's population is between the ages of 18 and 65 than the population of most of the other states in the nation. Thus the relative size of California's producing population is greater, and the state's economy benefits. Finally, the average Californian has completed more years of schooling than his or her counterparts in most other states. These factors are expected to continue to be a positive influence on the state's economy in the future.

Revenues

It is time to unlock budgetary gridlock in our state by tying spending to the realism of revenues, rather than the fantasy of all the formulas, mandates and court orders which have accumulated in helter-skelter fashion over a period of decades.

Governor George Deukmejian
April 1990

Total Budget

California's budget has grown 121 percent in the last eight years, from $25.2 billion in 1982–83 to $55.7 billion in 1990–91. The budget consists of monies in three categories: the General Fund which includes all revenues not specifically designated to any other fund; Special Funds which receive revenues where the use of such revenues is restricted by law for particular functions; and Bond Funds which are the proceeds of General Obligation Bonds. (see Table 2-1.) The General Fund represents the preponderance of the total, accounting for over 75 percent of the state's budget.

General Fund

The General Fund revenues and transfers are showing moderate growth with 1989–90 actual revenues up by $2.3 billion over 1988–89 actual collections. The 1990–91 revenues are estimated to increase about 9 percent bringing the total revenues and transfers to almost $43 billion. This represents an increase of $3.7 billion over 1989–90.

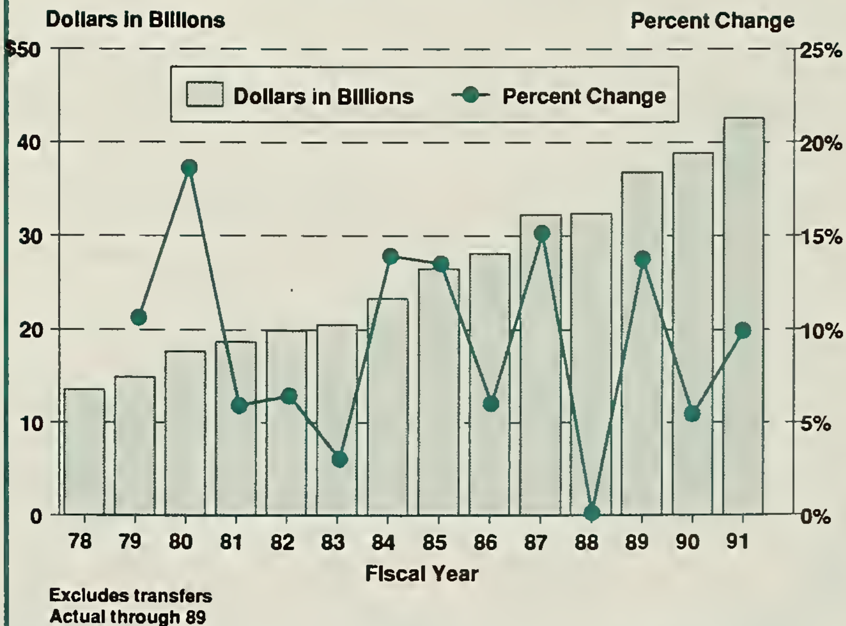
Overall, California is doing better than the rest of the nation. A recent survey by the Center for the Study of the States found that through June 1990, state revenues were up nearly 5 percent over the prior fiscal year. However, that included approximately 2 percent due to tax increases in other states. California finished fiscal year 1989–90 up about 6 percent from the prior fiscal year without tax increases. A number of large states, particularly in the northeast, have experienced little or negative revenue growth. Even federal revenues are running below expectations.

Given the magnitude of the revenue base, even relatively small percentage changes in the forecast will mean large differences in the revenue available for appropriation. The softness in the economy, federal monetary policy, and the problem in the Middle East all are indications that when the next revenue estimate is prepared it will show a downward revision.

Figure 2-A shows the historical trend in General Fund revenues and the year-to-year percent changes. Factors effecting the revenue trend include not only economic factors but behavioral responses to state and federal legislation. Notwithstanding the year-to-year fluctuations, the fundamental fact of the last eight years is clear: the basic strength of the California economy

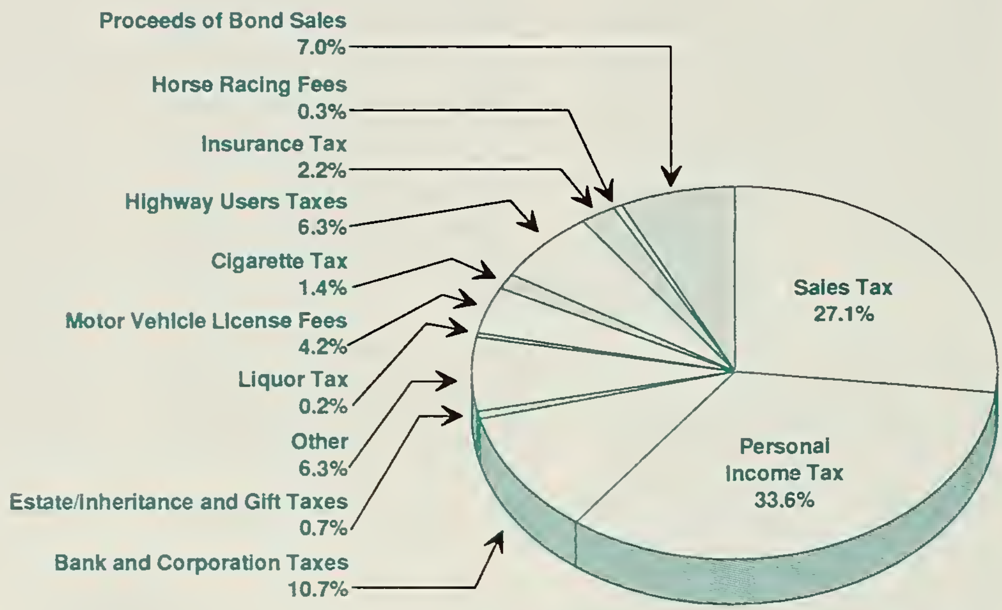
Figure 2-A

General Fund Revenues

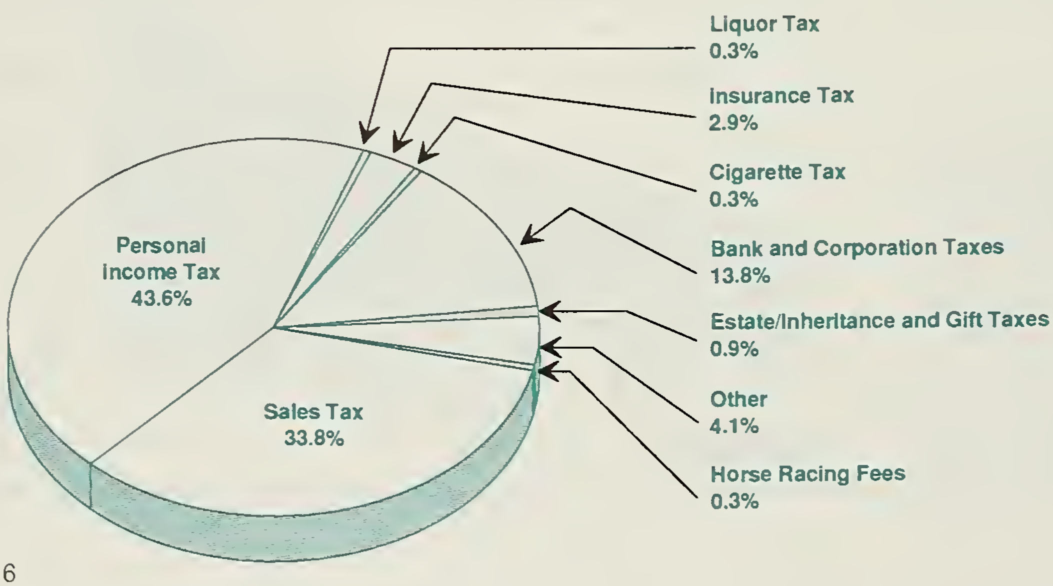


REVENUES
1990-91 Fiscal Year

WHERE THE MONEY COMES FROM
(Total Funds)

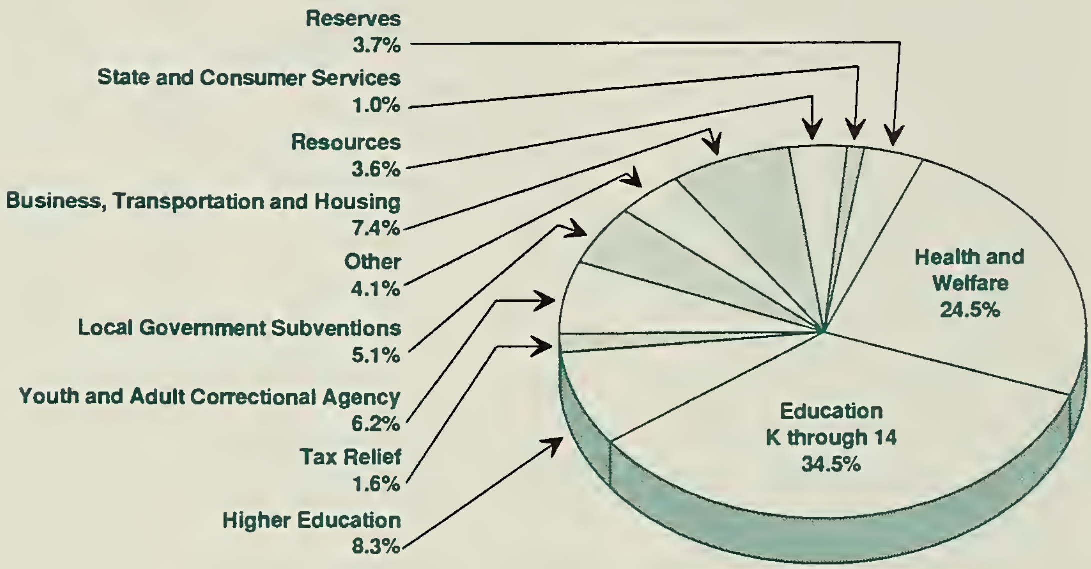


GENERAL FUND RESOURCES

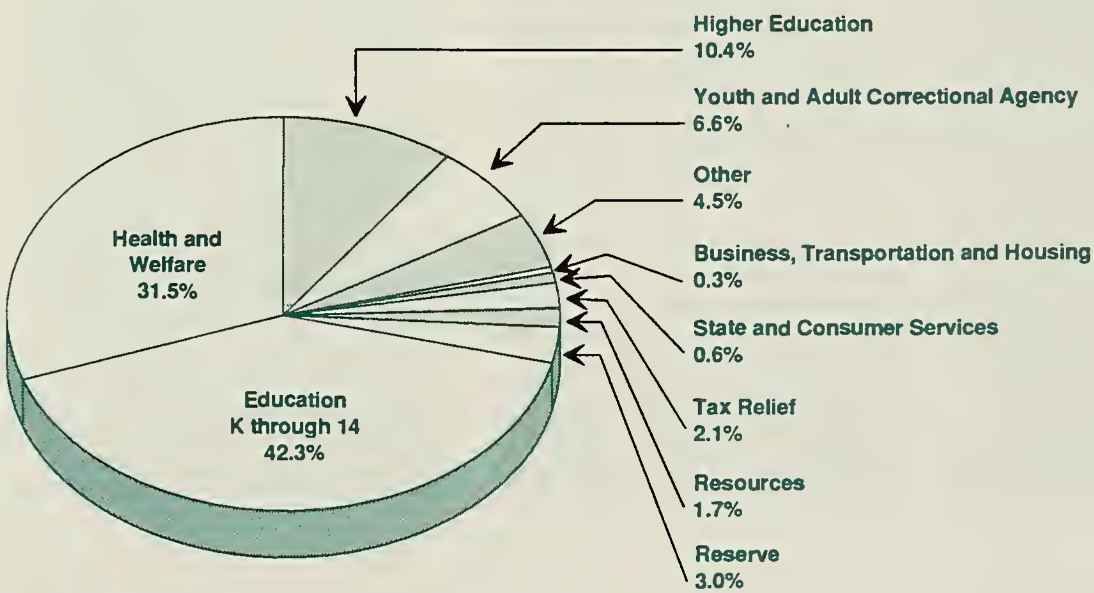


EXPENDITURES
1990-91 Fiscal Year

WHERE THE MONEY GOES
(Total Funds)



WHERE THE GENERAL FUND GOES



has driven state General Fund revenues to an increase of 102 percent, from $21.2 billion to $42.9 billion.

This increase occurred despite the fact that the state government's share of the state's economy, as measured by the percentage of personal income taken by all state taxes, has remained constant since 1978–79, the year of the Proposition 13 tax revolt. This story was quite different in the ten years prior to 1978, with the government's share of the economy increasing from just over 6 percent to nearly 8 percent. (see Table 2-3).

Table 2-1

1990–91 Fund Sources

Source	*General Fund*	*Special Fund*	*Bond Funds*	*Total Funds*
Personal Income Tax	$18,709	$6	–	$18,715
Sales Tax	14,485	563	–	15,048
Bank and Corporation Taxes	5,905	25	–	5,930
Highway Users Taxes	–	3,504	–	3,504
Motor Vehicle License Fees	–	2,307	–	2,307
Insurance Tax	1,250	–	–	1,250
Cigarette Tax	148	615	–	763
Liquor Tax	127	–	–	127
Estate, Inheritance and Gift Tax	402	–	–	402
Horse Racing Fees	113	42	–	155
Other	1,776	1,732	$3,898	7,406
Use of Reserves	–	65	–	65
Total	$42,915	$8,859	$3,898	$55,672

Budget Compromise

As part of the budget compromise package, a variety of revenue measures were enacted which provide new revenues of $791 million in 1990–91. The greater portion of this revenue was in the personal income tax and bank & corporation tax area and represented a combination of federal law conformity and compliance provisions ($604 million). A new fee for vehicles not meeting California air standards was enacted ($50 million) and the holding period for abandoned property was reduced ($137 million).

Personal Income Tax

The California personal income tax, which contributes over 43 percent of all General Fund revenues, is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions) from California sources. The tax is progressive with rates ranging from 1 to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT) which is much like the federal AMT. This is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level.

Finally, the personal income tax is adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income.

Legislation enacted in 1987 restructured the state's personal income tax to closely conform with federal law, thus simplifying state tax return preparation. The full impact of that legislation will not be felt for several years since many of the provisions were phased in over time.

The income component of the economic forecast forms the basis for the personal income tax forecast. Capital gains income, which is not part of the national income accounts, is forecast separately using real economic activity, stock-market trends, and real estate activity.

The historical trend in capital gains has been greatly distorted in the last four years by the adoption of national and state tax reform. Capital gains realizations surged in 1986, and dropped dramatically in 1987. Many of the 1986 gains would normally have occurred in 1987 absent the effect of a higher capital gains tax rate in 1987. The effect on 1988 was substantially less, thus greatly reducing the major element which depressed 1987 realizations. Gains in 1989 appear to have been up only about 5 percent, despite strong stock and real estate markets. Continuing discussions at the federal level about reinstitution of a preferential capital gains rate may have induced some taxpayers to postpone selling in hopes of more favorable tax treatment in future years.

The forecast assumes capital gains realizations will grow by 5 percent in 1990 and 10 percent in 1991. However, the federal tax issue has not been resolved and this will add to the inherent volatility in this income component.

Part of the compromise for funding of the 1990–91 Budget requires personal income tax withholding on real estate transactions when the seller is not a resident of California. This was an attempt to ensure that persons who are not residents of California will properly pay their tax liability on income earned in this state.

Table 2-2

1990–91 Budget
By Fund

(Dollars in Millions)

Function	*General Fund*	*Special Fund*	*Bond Fund*	*Total*
Education (K–14)	$17,766	$77	$1,791	$19,634
Health and Welfare	13,219	734	6	13,959
Higher Education	4,392	38	314	4,744
Business, Transportation and Housing	116	3,588	502	4,207
Tax Relief	882	–	–	882
Local Government Subventions	–	2,905	–	2,905
Youth and Adult Correctional Agency	2,775	16	722	3,514
Resources	704	776	562	2,042
State and Consumer Services	272	309	–	582
Other	1,905	414	–	2,320
Subtotal	$42,032	$8,859	$3,898	$54,788
Net Restoration of Reserves	$884	–	–	$884
Total	$42,915	$8,859	$3,898	$55,672

This legislation is expected to generate $43 million in 1990–91.

Additional legislation conformed the personal income tax and the bank & corporation tax with 1987 and 1989 federal tax law changes. This bill was also part of the compromise for funding of the 1990–91 Budget and is expected to generate $36 million in personal income tax revenue in 1990–91.

Estimated revenues, based on the May forecast, compared with actual collections in 1988–89, are:

(Dollars in Millions)

1988–89 (Actual)	$15,886
1989–90 (Estimated)	17,020
1990–91 (Forecast)	18,709

Sales Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas, electricity and water. Other exemptions provide relief for a variety of sales ranging from candy to aircraft.

The breakdown of the 6.25 percent rate currently imposed is:

- 4.75 percent represents the state tax rate;
- 1 percent is for cities and counties;
- 0.25 percent is for county transit systems;
- 0.25 percent is a temporary state tax for funding earthquake relief (effective from December 1, 1989 through December 31, 1990).

There has also been a move over recent years for counties, subject to voter approval, to increase their sales tax rates to provide additional funding, particularly for transportation, but also for other purposes. As of the June 1990 general election, 18 counties were authorized to levy these additional rates.

The sales and use tax forecast is prepared by relating taxable sales by type of sale to various economic factors such as disposable personal income, housing starts, employment and inflation.

For calendar year 1989, total taxable sales were up 8.4 percent. Overall, all sectors performed well during the year, with building materials and furniture sales showing particular strength, increasing 10.5 percent and 9.0 percent, respectively. Fuel prices, after being relatively constant for two years, increased 23 cents per gallon from the first quarter 1989 to the second. By the end of the year, however, prices had eased back down to the prior year level, resulting in an annual growth rate for that sector of 10.2 percent. At the time that the forecast was prepared, it was estimated that fuel prices would remain relatively stable throughout the forecast period, increasing only moderately. The recent volatility in the Persian Gulf, however, will likely lead to significant price fluctuations.

Motor vehicle sales have continued to be a major factor for California revenues, representing almost one-fifth of the sales tax revenue base. This sector posted a gain of 6.5 percent during 1989. The forecast assumes that the growth in this component will continue at a moderate pace, being driven largely by price increases as opposed to increased sales.

As can be seen in Figure 2-B, taxable sales, adjusted for inflation, have grown at a relatively constant rate since recovering from the last recession. This trend is expected to continue through the current year.

Legislation was enacted in 1989 in an effort to compel out-of-state retailers to collect the California use tax on mail order sales. This program increased revenues by approximately $25 million during the

1988–89 fiscal year, $40 million during the 1989–90 fiscal year, and is estimated to generate $80 million during the current year, reflecting the impact of increased compliance.

Special legislation enacted in the 1989 extraordinary session increased the state sales tax rate from 4.75 percent to 5 percent, effective December 1, 1989 through December 31, 1990, for the purpose of funding earthquake relief. It is estimated that this temporary .25 percent tax will generate a total of $790 million; $355 million in the past year and $435 million in the current year. This revenue is deposited in the Disaster Relief Fund rather than the state's General Fund.

As part of the compromise for funding the 1990–91 Budget, legislation enacted a new, one-time, vehicle smog impact fee of $300 on individuals who bring a vehicle that had been registered in another state into California. Out-of-state vehicles that meet California's air quality standards and commercial vehicles with an unladen weight in excess of 6,000 pounds will be exempt. This bill was part of the compromise budget package for 1990–91. It is expected to generate $50 million in 1990–91 and about $100 million per year thereafter.

General Fund revenues, based on the May forecast, compared with actual collections in 1988–89, are:

(Dollars in Millions)

1988–89 (Actual)	$12,577
1989–90 (Estimate)	13,475
1990–91 (Forecast)	14,485

Bank and Corporation Tax

Bank and corporation tax revenues are actually derived from four taxes.

- The franchise tax and the corporate income tax are levied at a 9.3 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations which do not do business in the state but which derive income from California sources.
- Banks and other financial corporations pay an additional tax (i.e., "Bank Tax") on their net income. This tax is in lieu of all state and local taxes except those on real property, motor vehicles and business licenses. The current rate for this tax is approximately 1.44 percent.
- The alternative minimum tax is similar to that in federal law. This tax is imposed at a rate of 7 percent beginning with the 1988 tax year. In prior years, California imposed a tax on preference income.
- A minimum franchise tax of $800 is imposed on corporations subject to the franchise tax but not those subject to the income tax.

Since the tax is primarily a function of corporate profits, the relationship of California profits to the national corporate profits forecast is important. However, the relationship is not precise because business activity in California may differ from that of the nation. Furthermore, state tax law defines profits differently. National profits are the net of all gains and losses whereas California taxable profits are gains only.

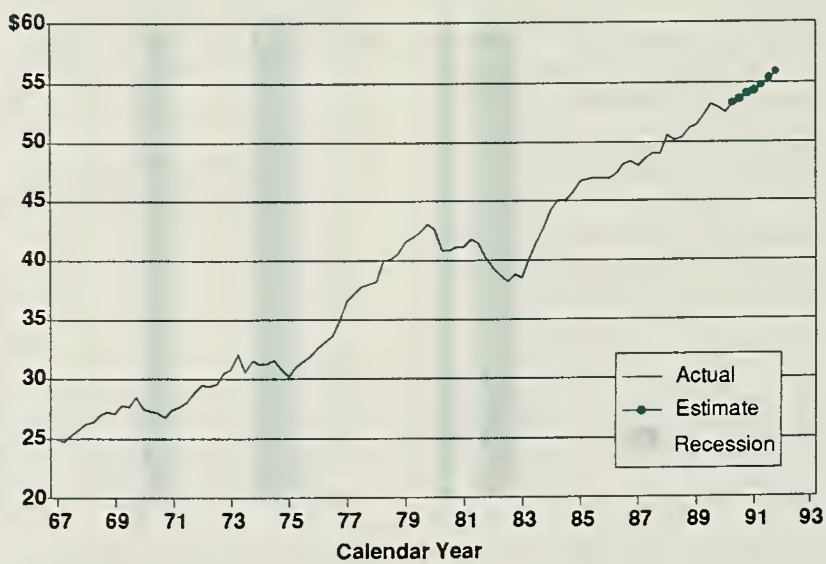
The preparation of the forecast involves consideration of the level of employment, the trends in noncorporate business income, interest rates and inflation. In addition, the forecast of California taxable profits for 1990 is influenced by actual cash flow of revenues.

Figure 2-C shows the trend in taxable profits from 1964 to date. The rapid growth since the mid-70s is clearly apparent, as are the 1970 and 1981 recessions. This forecast assumes continued growth with no recession on the horizon. However, the revenue growth from this tax has been slow, resulting in a declining share of the state's revenue in each of the last three years.

Figure 2-B

Taxable Sales in California

(Constant 1982 Dollars in Billions)

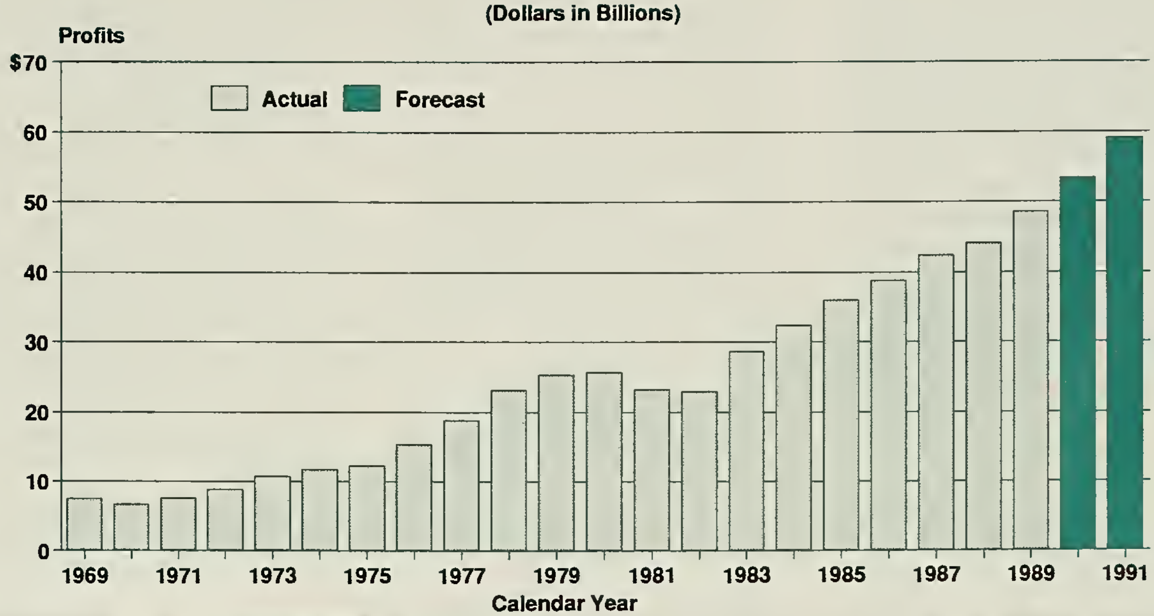


Estimate begins second quarter 1990

Figure 2-C

Bank and Corporation Tax Taxable Profits

(Dollars in Billions)



The National Tax Reform Act of 1986, which was signed into law in October 1986, made significant changes to federal law. The state's revenues were positively impacted in the 1986–87 fiscal year as some taxpayers made additional state tax payments to take advantage of deducting these costs against the higher tax rates contained in the old federal law. In September 1987 the California Bank and Corporation Tax Fairness, Simplification, and Conformity Act of 1987 was enacted. This law adopted many of the new federal provisions and substantially revised California law. Nevertheless, significant differences between the laws still exist, for example, depreciation schedules. Although designed to be revenue neutral, the actual impact of the bill is not totally clear even after three years.

The method of determining the amount of corporate income attributable to California and consequently taxable by the state was changed to allow an alternative calculation beginning in the 1988–89 fiscal year. Use of the alternative "water's-edge" method increased significantly in 1989–90 as many corporations elected to make the change and pay a fee which is a special fund revenue. These elections do, however, reduce General Fund revenue.

Legislation enacted in 1990 as a part of the budget compromise conformed California's Personal Income Tax Law and Bank & Corporation Tax Law with the changes made to federal tax law in 1987 and 1989. In 1990–91, the bill is expected to increase bank & corporation tax revenue by $525 million.

Estimated General Fund revenues, based on the May forecast, compared with actual collections in 1988–89, are:

(Dollars in Millions)

1988–89 (Actual)	$5,138
1989–90 (Estimate)	5,000
1990–91 (Forecast)	5,905

Other Revenues and Transfers

Other revenues and transfers are estimated to be $3.8 billion in fiscal year 1990–91. The major contributors to this total include the insurance tax, interest from pooled money investment, estate tax, California State University fees, revenue from abandoned property, tobacco tax, alcoholic beverage taxes, and horse racing fees.

In November 1988, the voters enacted Proposition 103 which redefined the rules for certain insurance premiums. The effect of this action on long-term premium growth is uncertain, but the tax rate will be

adjusted to compensate for any decrease in revenue through 1990–91.

Special Fund Revenue

The California Constitution, codes and statutes specify the uses of certain revenue. Such receipts are accounted for in various special funds and total $8.8 billion. In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees.
- Charges for special services to specific functions, including such items as business and profession license fees.
- Rental royalties and other receipts designated for particular purposes—for example, oil and gas royalties.

Motor vehicle related taxes and fees account for approximately two-thirds of all special fund revenue. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees, and vehicle license fees.

During the 1990–91 fiscal year, $5.8 billion will be derived from the ownership or operation of motor vehicles. Approximately $3.1 billion of this revenue will be returned to local governments. The remainder will be available for various state programs related to transportation and services to vehicle owners.

In June 1990, the California voters approved Proposition 111, The Traffic Congestion Relief and Spending Limitation Act of 1990. As a result, motor vehicle fuel taxes were increased by 5 cents per gallon, effective August 1, 1990, with an additional 1 cent per gallon increase on each January 1st of the next four years, for a total increase of 9 cents per gallon, effective January 1, 1994. In addition, weight fees for commercial vehicles were increased by 40 percent, effective August 1, 1990, with an additional 10 percent increase, effective January 1, 1995.

Tobacco related taxes are another major special fund revenue. Funds from the voter-approved increase in tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at $566 million in the past year and $552 million in the current year. The original 10 cents

Table 2-3

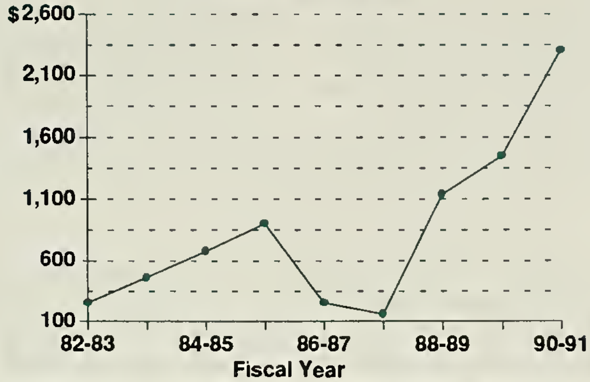
Summary of State Tax Collections
(Excludes departmental, interest and miscellaneous revenue)

Fiscal Year	Per Capita Personal Income [1] [2]	State Tax Collections (Dollars in Millions)		Taxes per Capita [1]		Taxes per $100 of Personal Income [3]	
		General Fund	Total	General Fund	Total	General Fund	Total
1967–68	$3,838	$3,558	$4,676	$185.55	$243.86	$4.83	$6.35
1968–69	4,158	3,963	5,173	203.94	266.21	4.90	6.40
1969–70	4,485	4,126	5,409	208.96	273.94	4.66	6.11
1970–71	4,746	4,290	5,599	214.08	279.41	4.51	5.89
1971–72	4,958	5,213	6,599	256.22	324.34	5.17	6.54
1972–73	5,360	5,758	7,229	279.72	351.18	5.22	6.55
1973–74	5,836	6,379	7,877	305.67	377.45	5.24	6.47
1974–75	6,433	8,045	9,574	379.95	452.16	5.91	7.03
1975–76	6,951	9,069	10,710	421.07	497.26	6.06	7.15
1976–77	7,646	10,781	12,525	491.48	570.98	6.43	7.47
1977–78	8,373	12,952	14,826	579.46	663.30	6.92	7.92
1978–79	9,411	14,188	16,201	621.30	709.45	6.60	7.54
1979–80	10,526	16,860	19,057	724.94	819.41	6.89	7.78
1980–81	11,603	17,808	20,000	748.86	841.04	6.45	7.25
1981–82	12,724	19,109	21,556	787.45	888.28	6.19	6.98
1982–83	13,238	19,579	22,375	789.92	902.73	5.97	6.82
1983–84	13,927	22,309	25,685	881.47	1,014.86	6.33	7.29
1984–85	15,098	25,515	29,038	989.72	1,126.38	6.56	7.46
1985–86	16,036	26,982	30,916	1,023.67	1,172.93	6.38	7.31
1986–87	16,778	31,331	35,368	1,160.45	1,309.97	6.92	7.81
1987–88	17,770	31,231	35,616	1,129.31	1,287.87	6.36	7.25
1988–89	18,753	35,647	40,619	1,258.59	1,434.13	6.71	7.65
1989–90 [e]	19,685	37,430	43,257	1,287.89	1,488.39	6.54	7.56
1990–91 [e]	20,912	41,139	48,201	1,383.61	1,621.13	6.62	7.75

[1] Per Capita computations are based on July 1 population estimates.
[2] Personal income data are on a calendar year basis (e.g., 1987 for FY 1987–88).
[3] Taxes per $100 personal income computed using calendar year personal income e.g. 1987 income related to 1987–88 tax collections.
[e] Estimated.

Figure 2-D

General Fund General Obligation Bond Sales: 1982-83 through 1990-91
(Dollars in Millions)



per package tax on cigarettes is allocated 70 percent to the General Fund and 30 percent to a special fund for distribution to cities and counties. It is estimated that these local distributions will equal $65 million during 1989–90 and $63 million during 1990–91.

Bond Funds

Bond financing is an accepted form of long-term borrowing under which the state raises money by issuing voter-approved financial securities, or General Obligation Bonds, to investors. General Obligation Bonds are used to finance a wide variety of projects benefiting the public, including schools, prisons, parks and water treatment facilities. For 1990–91 Bond Fund resources utilized for expenditures will total $3.898 billion. Of this amount nearly $1.8 billion is for K–14 schools and $900 million is for prisons and youth authority facilities. (For specific information on bond expenditures see the various expenditure areas.)

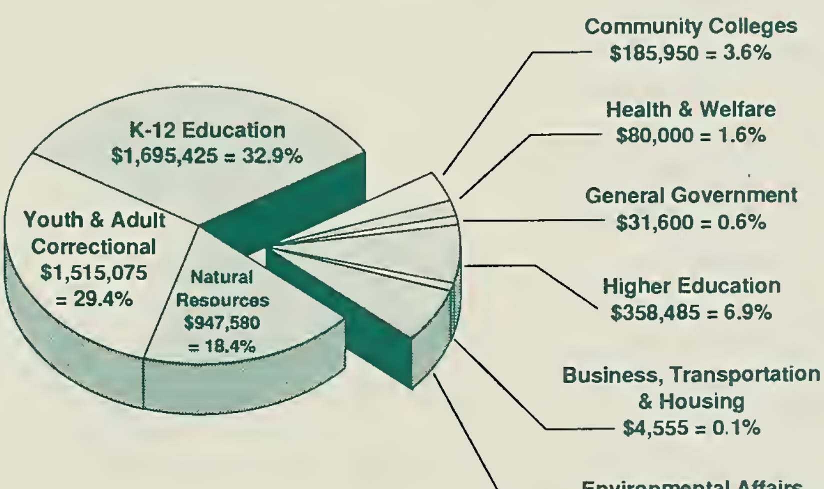
Figure 2-D displays the General Fund General Obligation Bond sales between fiscal years 1982–83 and 1990–91. Bond sales increased between 1982–83 and 1985–86 and then declined in 1986–87 and 1987–88. This decline was due primarily to the implementation of the Federal Tax Reform Act of 1986. Federal tax rules continue to impose limits on the sale of bonds in advance of the completion of projects. The state sold $1.375 billion in bonds during 1989–90 and it is estimated that the state will sell $2.3 billion in 1990–91.

Currently, there are $5.15 billion of outstanding state General Fund General Obligation Bonds. Figure 2-E provides a breakdown of these outstanding bonds by agency. As the figure shows, the Youth and Adult Correctional Agency accounts for nearly 30 percent of the $5.15 billion in outstanding bonds while K–12 Education accounts for almost 33 percent of the total outstanding. The remaining outstanding bonds are represented by other state agencies, including resources, higher education, health and welfare, general government, and business transportation and housing.

Figure 2-E

Outstanding General Fund General Obligation Bonds by Agency

(Dollars in Thousands)



Even though California currently maintains a modest bond funding level, it is critical that all efforts be made not to over-extend this funding source. General Obligation Bonds are not now and should not in the future be used as a funding source for general or ongoing expenses, but only for purposes which will provide long-term benefits. Examples of these types of projects include schools, roads and prisons. By following this course, the facilities constructed now will benefit not only the people today, but the generations to come.

California enjoys a very favorable standing nationwide with its low level of debt service. The state currently spends less than 2.0 percent of all General Fund expenditures for debt service costs. California's debt per capita and debt as a percentage of personal income are the second lowest among the five Triple-A credit rated states. With the increase in the number and size of recent General Obligation Bond measures, it is certain that the level of debt service will increase and a greater proportion of the state's General Fund will be needed in the future. This makes the need for caution in debt issuance all the more important.

K–12 and Community Colleges

California ranks third in teachers' salaries, but we rank 50th in the nation in class size. It's about time that we took a good hard look at our priorities, and recognized that one of the best ways we can improve the quality of education is to give our students more individual attention in the classroom.

Governor George Deukmejian
August 1990

California's elementary, secondary and community college education systems are composed of 1,010 local school districts, 58 county offices of education and 71 community college districts which spend over $30 billion annually to educate approximately 5 million students ranging in age from zero to age 18, and approximately 3 million adults.

As indicated in this section, approximately $27.2 billion in public resources will be devoted to the state's public elementary and secondary education systems in 1990–91 and nearly $3.4 billion will be devoted to the community college system. These resources represent increases of 115 percent and 91 percent respectively above the $14.1 billion devoted to K–12 and community college education when this Administration assumed office.

These increases will fund enrollments of 5,096,861 students in the public elementary and secondary schools, an increase of 946,565 students or a 23 percent increase since 1982–83; and 1,432,980 students in the community colleges, an increase of 81,220 students for a 6 percent increase since 1982–83.

Total Funding. As noted in Figures 3-A and 3-D, revenue for the support of the K–12 and community college programs comes from various sources. Approximately 68 percent ($18.5 billion) of the K–12 revenue and 63 percent ($2.1 billion) of the community college revenue comes from the state. Another 25 percent ($6.8 billion) for K–12 and 34 percent ($1.2 billion) for the community colleges come from local property taxes and other local sources. The remaining 7 percent for K–12 and 3 percent for the community colleges come from the federal government. (see Table 3-1 for K–12 Revenue and Table 3-2 for community college revenue)

Table 3-1

**Total Revenue for K–12 Education
1982–83 through 1990–91**

(Dollars in Millions)

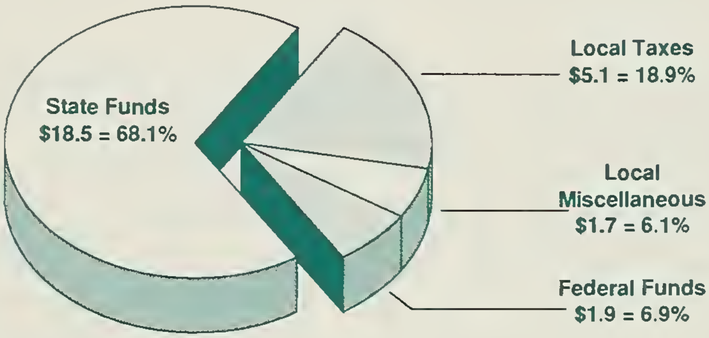
Source of Funds	*1982–83*	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*1989–90 **	***1990–91 ****
State General Fund	$7,722	$8,898	$9,962	$11,031	$12,201	$12,583	$13,863	$14,754	**$15,989**
Lottery Fund	–	–	–	556	411	651	834	835	**835**
Other State Funds	189	213	420	334	757	799	1,680	159	**1,708**
Federal Funds	1,030	1,202	1,197	1,256	1,355	1,445	1,658	1,821	**1,880**
Local Property Taxes	2,462	2,541	2,867	3,195	3,484	3,786	4,117	4,490	**4,869**
Local Debt Service Taxes	450	444	425	391	338	312	285	273	**260**
Local Miscellaneous	758	803	861	953	976	1,427	1,498	1,573	**1,652**
TOTAL REVENUE	$12,611	$14,101	$15,732	$17,716	$19,522	$21,003	$23,935	$23,905	**$27,193**

* Estimated

Figure 3-A

Revenue for California's K-12 Schools
Source of Revenues

(Dollars in Billions)



Proposition 98

Proposition 98 was passed by the California voters in the November 1988 general election and required a major restructuring in state financing by providing a guaranteed minimum level of funding for K–14 education. Specifically, school districts and community colleges are guaranteed either the same percentage of state General Fund tax revenues received in 1986–87, or the prior year funding level adjusted for enrollment and cost-of-living, whichever amount is greater. In 1990–91 the guarantee is based on the prior year enrollment adjusted for average daily attendance (ADA) and cost-of-living. Consequently, in excess of $800 million in new funding has been provided over what the K–14 percentage share of the General Fund would have been without Proposition 98.

Proposition 98 was modified by Proposition 111 in June 1990. In general, the modifications were (1) to improve the guarantee for K–14 when it was based on the prior year's funding level by using the growth in personal income instead of the cost-of-living as an adjustment, and (2) to eliminate the requirement that revenue windfalls in excess of the spending limit be allocated to K–14 with the resulting expenditure level then becoming a new floor for K–14 spending. Such windfalls will now be averaged against the spending limit over a two year period. Finally, new provisions reduce the K–14 guarantee when state revenues are impacted by a recession.

It is important to note, however, that not all General Fund appropriations for elementary, secondary and community college education are covered by the provisions of Proposition 98. Additional appropriations are made for debt service payments made by the state in the school building program, contributions made by the state to the State Teachers' Retirement System, and support costs of the Department of Education and Chancellor's Office of the California Community Colleges.

K–14 Programs. In 1990–91, $17.1 billion has been appropriated or set aside for appropriation for K–14 programs pursuant to the current estimate of the Proposition 98 requirement. Of this total, $146 million was set aside for subsequent appropriation to various high priority areas in the K–14 area and $297 million comprises the Special Reserve for Education which is designed to meet any deficiencies in K–14 programs or K–14 revenue shortfalls. Additional set asides of $116 million for subsequent appropriation to various high priority areas in the K–14 area result from the 1989–90 Proposition 98 guarantee.

Set Asides. The total set asides provided by the Governor include (dollars in millions):

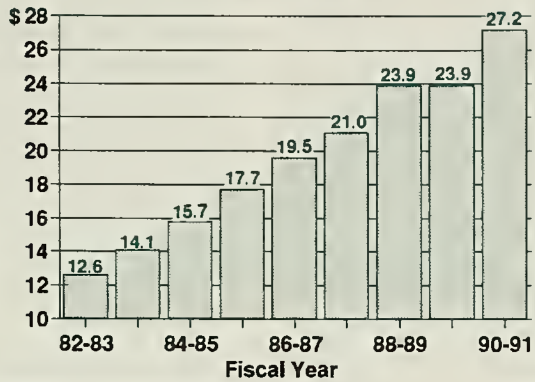
• Class Size Reduction	$189.0
• Year-Round School Reform	27.0
• New Driver Training Program	21.0
• New Pupil Assessment Program	8.9
• Community College Reform—Phase II balance	8.4
• K–12 School Restructuring	6.0
• Indian Education Centers	1.5
• Special Reserve for K–14 Education	296.8
	$558.6

While these funds were set aside by the Governor, they are within the Proposition 98 guarantee and must be allocated to school and community college districts. The Legislature has passed legislation allocating the set asides for the Year-Round School Reform, Indian Education Centers, K–12 School Restructuring and Community College Reform—Phase II balance. If the next Legislature and Administration do not agree on the use of the moneys for the remaining set asides, the funds

Figure 3-B

Total Revenue for K-12 Education

(Dollars in Billions)



will be allocated automatically, $110 million in 90–91 and the balance in 91–92.

Elementary and Secondary Education

California's elementary and secondary education system continues to be the highest priority of this Administration. In order to improve California's education system to be among the best in the nation, this Administration has more than doubled revenues for K–12 education from $13 billion in 1982–83 to over $27 billion in 1990–91 while enrollment has increased only 22.8 percent to 5,096,861 students.

On a per student basis, expenditures have increased from $2,398 in 1982–83 when the Governor came into office to $4,170 in 1990–91—an increase of 33 percent after adjusting for inflation.

Reforms. Along with these increased levels of funding there have been a number of education reforms. Most notably, SB 813, Statutes of 1983, initiated reforms in the areas of student academic performance and discipline, curriculum and quality of teachers. Specific reforms include increased graduation requirements, incentive funding for longer school days and longer school years, supplemental summer school funding, establishment of mentor teachers, and increased parental and community involvement in the education process.

Other reform efforts include enactment of legislation to reduce class size, promote the use of technology in the educational process, and promote fiscal accountability of local educational agencies.

Financing for further reforms is provided in the set asides, including Year-Round Schools, Class Size Reduction and K–12 School Restructuring.

Need for Further Reform. However, it is clear that the reform program which began in 1983 has not gone far enough nor has it moved fast enough. The increased expenditures have not achieved the results promised. The Administration believes that the educational system must reorder its priorities away from its major concern with money, salaries and personal benefits, toward a greater concern for performance, quality and competitiveness.

The primary reform necessary is a reduction of class size. In fiscal year 1990–91 a total of $220 million will be available for the purposes of reducing the size of classes in California. The 1990–91 Budget includes $31 million to fund class size reduction in grades 9–12. An additional $9 million will go to grades 9–12 from the $189 million which the Governor has set aside for this program. The remaining $180 million will be used for the Language Arts Enrichment Program to fund class size reduction in grades 1–3, where it provides the most effective results.

These programs will help provide teachers with the opportunity to spend more time with students and manage classrooms more effectively. In addition, it is anticipated that educators and policy makers will focus on other alternatives to class size reduction such as the use of aides, volunteers, staggered schedules, and team teaching in order to reduce the adult-student ratio.

Highlights of the K–12 Budget

The new funding in the 1990–91 Budget will provide:

- Continued funding for the SB 813 reform movement and an additional $669 million for enrollment increases and $596 million for cost-of-living adjustments.
- $220 million ($189 million set aside) to implement class size reduction and language arts enrichment programs including $40 million for grades 9–12 and $180 million for grades 1–3. (As discussed above).
- $90.6 million in program growth for special education.
- $41.3 million for population increases and program expansion in court-ordered and voluntary desegregation programs.
- $12.6 million in growth for the school improvement program.
- $22.5 million in preferential growth for the economic impact aid program.

- $6.8 million for growth in the adult education program.
- $3.4 million in preferential growth for the regional occupational centers and programs.
- $10 million to expand the comprehensive alcohol and drug prevention education program administered by the Governor's Office of Criminal Justice Planning.

Cost-of-Living Increases. The 1990-91 Budget provides $596 million for cost-of-living adjustments (COLAs). On a full-year basis, this appropriation will provide all programs with statutory COLAs and all discretionary programs a 3 percent COLA increase.

Teacher Compensation. Attracting and retaining high quality teachers was thought to be essential to the continued improvement in our schools. To this end, funding was provided during this Administration to increase the salaries of beginning teachers to make their salaries competitive with the entry level salaries of other professions. The starting salaries of California teachers are now the second highest in the nation. Moreover, overall California's teacher salaries rank third in the nation according to the National Education Association.

Summer School. Prior to the enactment of SB 813 in 1983, state funding for summer school was limited to remedial instruction for students who were not meeting standards for proficiency in basic skills. SB 813, however, established a supplemental summer school program for course enrichment in core areas such as mathematics, science, English, foreign language, fine arts and computer science. The new program also helps students to meet the enhanced graduation requirements also established in SB 813.

Between 1982-83 and 1990-91, funding for the remedial summer school program will have grown by almost 88 percent, from $15.5 million in 1982-83 to $29.1 million in 1990-91. The supplemental summer school program, which began in 1984-85 with expenditures of $23.5 million, has grown significantly to $76 million in 1990-91, an increase of 223 percent. Over the same period, summer school average daily attendance (ADA) has grown over 128 percent, growing from 8,219 ADA in 1982-83 to the current estimated level of 18,800 ADA.

Special Education. The primary goal of the special education program, under both federal and state law, is to provide a free, specialized public education that meets the needs of disabled students as adequately as the needs of regular education students are met.

Since taking office, the Governor has more than doubled special education General Fund expenditures.

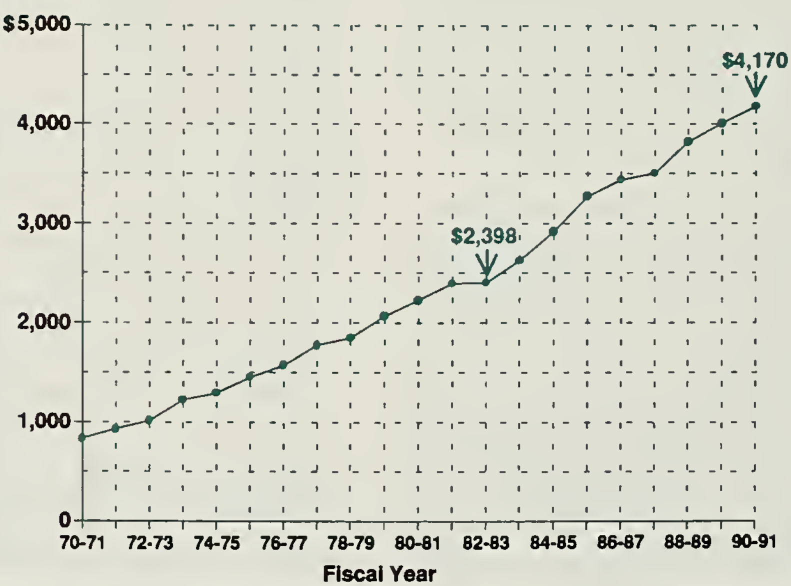
This Administration determined that special education programs should be a high priority. Therefore, augmentations were provided for additional instructional units of $10 million in 1984-85, $15 million in 1985-86, $24.1 million in 1986-87, $44.9 million in 1987-88, $64.2 million in 1988-89 and $33 million in 1989-90 to serve the increasing special education population.

Since 1982-83 the Administration has also provided total augmentations of $13 million to serve the increasing population of infants. Additionally, this Administration provided a total of $80.5 million for program improvements, such as increased number of instructional aides; specialized services and equipment for pupils with low incidence disabilities; and incentive funds for county offices of education to adopt a longer school day and year. Another $60 to $85 million annually has been provided as statutory cost-of-living adjustments (COLA).

The 1990-91 Budget provides an increase of $90.6 million for growth in special education instructional personnel service units, special education infant program units, and other program areas. Additionally, a cost-of-living adjustment of $64.4 million is provided in 1990-91.

Figure 3-C

K-12 Expenditures Per Student



Child Care and Development. The Department of Education administers a variety of subsidized child care and development programs which provide direct and indirect services to children from low-income families and those with special needs. These programs are designed to enhance the physical, emotional and developmental growth of participating children as well as assist families to become self-sufficient by enabling parents to work or receive employment training. These programs are currently serving approximately 120,000 children.

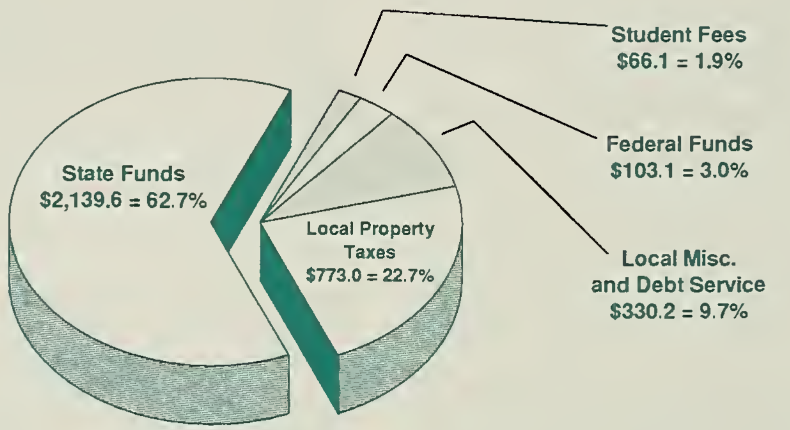
The Extended Day Care Program was authorized by legislation enacted in 1985. This program is now known as the Latchkey Program and provides child care services before and after school to school aged children.

Since 1982–83, the Governor has increased the child care and development program expenditures from $250.5 million ($248.6 million GF, $1.9 million FF) to the 1990–91 level of $365.9 million ($362.5 million GF, $3.4 million FF), including cost-of-living adjustments of $10.4 million for these programs.

Figure 3-D

Revenue for Community Colleges Source of Revenues

(Dollars in Millions)



School Improvement Program. The School Improvement Program (SIP) is designed to involve parents, teachers and the community to improve all students' learning of the core curriculum. Program funding is used for school improvement planning and implementation of those plans. Quality reviews are conducted every three years to ensure the continued effectiveness of school improvement efforts.

Funding for the SIP has increased from $163 million in 1982–83 to $315 million in 1990–91, including increases in 1990–91 of $11.8 million for program growth and $9.2 million for cost-of-living adjustments. These funds will fully fund the program in grades 7 and 8 and serve over 89 percent of children in grades K–6.

Regional Occupational Centers or Programs. During this Administration funding for Regional Occupational Centers or Programs, which provide job-specific skills for selected high school pupils and adults, has increased from a 1982–83 base of $155 million to $241 million in 1990–91. The numbers of pupils trained has increased from 91,000 in 1982–83 to a projected 106,000 in 1990–91.

Educational Technology. Although the Department of Education provided some assistance with radio and television instruction for many years, the Educational Technology Program as we know it came into being in the second year of this Administration. Greatly increased expenditures in local assistance for the use of computers, video recorders, instructional television and other high technology tools for the enhancement of learning were authorized. Beginning in 1984–85, $126 million has been made available to assist districts in the intelligent selection, purchase and use of high technology educational hardware and software. Although local educational agencies spend much more than this on such purchases, the state level program is aimed at enabling more effective and efficient use of these tools at the local level. The program recently has been extended another three years while an intersegmental master plan for technology in education will be prepared to recommend changes in the state's role in educational technology.

English as a Second Language. Recognizing the growing need of immigrant populations for expanded instruction in English as a second language (ESL), funding within the adult education program set aside for ESL instruction has increased by ten times since 1986–87. Almost $10 million was appropriated specifically for this purpose in 1989–90, in rec-

ognition that the federal funds provided through the State Legislation Impact Assistance Fund do not serve all of California's adults in need of these classes. Furthermore, for the last several years funds for program growth have been targeted for ESL, GAIN and basic skills programs only. Total state General Fund spending for adult education has grown from $149 million in 1982–83 to $287 million in 1990–91. The projected 1990–91 average daily adult education attendance is over 200,000.

K–12 School Facilities Program. Historically, public K–12 school districts had the primary responsibility for financing their own school construction. However, since the passage of Proposition 13 in 1978, the state has assumed an increased responsibility for school construction needs.

Under the State School Building Lease-Purchase program, the State Allocation Board (SAB) provides grant funds to local school districts for construction and reconstruction of schools in accordance with a priority system based on the districts need to house current and projected pupils. Funding is obtained primarily from the sale of general obligation bonds with an eight-year total plan of $4.15 billion from 1982–83 through 1990–91.

Since 1982–83, 469 new projects housing about 180,000 pupils have been built using Lease-Purchase program funds. In addition, in 1986, the Administration supported a comprehensive five-bill package to address the continued effects of increased pupil enrollment. Specifically, the legislation implemented a local/state partnership which included authority for districts to assess fees on new residential and commercial development. Since 1986, over $250 million in developer fees have been reported by districts, which has been included as revenue to the Lease-Purchase program.

For 1990–91, the Governor supported two bond measures of $800 million each for the June and November ballots. The June Bond Act was approved by the voters, and the November Bond Act, if approved, will lead to a substantial increase in the number of school facilities for the increasing K–12 population.

Since 1983, over $175 million has been provided for emergency portable classrooms, and has resulted in the placement of approximately 5,000 additional classrooms statewide. During this same period, the SAB also provided over $563 million to districts for deferred maintenance projects.

Since 1984, a total of $25 million has been appropriated for the SAB to provide funds to school districts for over 686 asbestos abatement projects.

Year-Round Schools. Under prior law, school districts operating on a year-round school (YRS) basis are eligible under two separate programs to receive up to $150 per pupil, adjusted annually for inflation, in incentive payments. These payments were intended to encourage the use of existing facilities and to reduce the demand for new school construction funding. However, the Administration did not believe that the original intent of the YRS incentive payment programs was being met. Therefore, the Governor vetoed $27 million from the 1990 Budget Act and set aside these funds for legislation to reform these programs, and achieve their original intent.

Legislation sponsored by the Administration implements permanent reform of the existing YRS incentive payment programs by establishing two new YRS grant programs. The first program will assist school districts in converting to YRS operations, and the second program will provide continuing grants for operation of YRS programs based on increased utilization of existing school facilities.

A major component of this legislation, which addresses the Governor's goal to reduce the demand for new K–12 school construction funding, is a provision that requires a reduction to a district's eligibility for this funding if it receives continuing YRS operations grant funds.

State Contribution To The State Teachers' Retirement System. Part of the legislation to implement the 1990–91 budget restructured the funding mechanism for the State Teachers' Retirement System and, replaced it with a General Fund contribution based on 4.3 percent of prior year member payroll, less the rate needed to meet a normal cost deficit. The transfers will continue at a rate of 4.3 percent until the Teachers' Retirement Board determines that the unfunded liability has been retired.

The restructured funding method represents the most sweeping reform of this system since its inception. Under the previous law the State Teachers' Retirement System accumulated an unfunded liability of approximately $10 billion and was considered as a major problem in state government. The new contribution rate is effective July 1, 1991 and there is no General Fund contribution for 1990–91.

Purchasing Power Protection. The budget provides a General Fund appropriation of $53 million and $3.7 million in state lands royalties for transfer to the purchasing power account with the Teachers' Retirement Fund. These funds will be used to provide purchasing power protection to an estimated 53,936 retired teachers.

Community Colleges

The California Community Colleges are open to all adults able to benefit from instruction and serve 1.4 million students at 107 campuses statewide.

The Community Colleges provide an excellent and affordable opportunity for students seeking a core education for transfer to four-year colleges and lower division degrees in the arts, sciences, and vocational fields. Remediation and basic skills education, continuing education and community education classes are also available.

Table 3–2

Total Revenue For Community Colleges 1982–83 through 1990–91

(Dollars in Millions)

Source of Funds	*1982–83*	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*1989–90* [1]	***1990–91*** [1]
State General Fund	$1,098.0	$1,117.2	$1,165.0	$1,233.9	$1,285.2	$1,373.6	$1,516.4	$1,639.6	**$1,778.3**
Lottery Funds	–	–	–	85.4	57.4	96.8	126.9	127.1	**127.1**
Other State Funds	22.5	22.6	14.0	86.7	8.3	94.2	90.9	220.0	**234.2**
Student Fees [2]	–	–	62.6	66.1	67.0	65.4	66.2	65.4	**66.1**
Local Property Taxes	390.1	399.4	432.2	497.6	544.9	603.9	653.6	713.9	**773.0**
Federal Funds	97.9	93.6	72.5	73.3	72.8	82.4	103.2	103.2	**103.1**
Local Miscellaneous	157.4	172.8	234.6	258.8	259.0	250.2	273.0	296.7	**321.2**
Local Debt Service	24.5	22.9	20.9	18.6	15.3	12.2	9.0	9.0	**9.0**
TOTAL REVENUE	$1,790.4	$1828.5	$2,001.8	$2,320.4	$2,309.9	$2,578.7	$2,839.2	$3,174.9	**$3,412.0**

[1] Estimated
[2] Excludes fees paid with BOG grants which are included in the General Fund

Total Funding. Total funding for the California Community Colleges in 1990–91 is $3.4 billion, an increase of $1.6 billion over the amount provided in 1982–83 (see Table 3-2). This represents a 91 percent increase in eight years. Total local assistance funding per unit of Average Daily Attendance (ADA) in 1990–91 is $3,668, a 79 percent increase over 1982–83. In real terms, this represents an increase of nearly 37 percent.

Reforms. In 1988, the Governor signed major community college reform legislation. To support certain goals set forth in the legislation, in 1989–90, $70 million was provided to fund Phase I of Transitional Program Improvement. This resulted in (1) the repeal of the credentialing system and the implementation of minimum qualifications, and (2) peer review of faculty and regular evaluations of part-time faculty.

In 1990–91, an additional $70 million is provided to fund Phase II of Traditional Program Improvement. This will result in (1) extension of the tenure period from two years to a maximum of four years; and (2) replacement of the current ADA-based funding formula with Program Based Funding, which will be based on workload standards.

COLA And Growth. The budget provides an augmentation of $113.3 million for a 4.66 percent cost-of-living adjustment and equalization. In addition, $38.9 million is provided for Average Daily Attendance (ADA) growth within the statutory limitation (2.43 percent) and $5 million is provided for basic skills ADA over the program growth cap.

Capital Outlay. For 1990–91, a total of $191 million, $93.4 million from Higher Education Capital Outlay Bond Funds and $97.6 million from the Public Buildings Construction Fund, is appropriated for capital outlay projects. Since 1982–83, a grand total of $523.9 million will have been provided by the state to support capital construction in community colleges.

During this time, support has been provided to over 450 projects including new and remodeled classrooms and laboratories, libraries, physical education facilities, and site acquisitions to provide for new colleges and educational centers. Additional projects have included the removal of architectural barriers to the physically disabled and the correction of campus health and safety hazards.

Higher Education

Our public colleges and universities, with 135 campuses and more than 1.5 million students, contribute to California's continuing prosperity through their research and by preparing well-trained individuals for a wide variety of careers in teaching, medicine, law, business, science, agriculture and public service.

Governor George Deukmejian
September 1990

Commitment to higher education has been a hallmark of this Administration. Today, our universities are world-renowned centers for innovation and discovery in science, medicine, technology, agriculture, economics, public policy and our national defense. The productivity of our private enterprise economy depends on an educated and literate citizenry.

California has done more than any other state to make higher education accessible to its citizenry. These achievements developed from the 1960 master plan for higher education, which drew the blueprint for California's three public segments of higher education: the California Community Colleges (see K–12 and Community Colleges in the Summary) which are open to all students able to benefit from instruction; the California State University, a multipurpose institution with an emphasis on teaching; and the University of California, a research institution. This system, combined with student fees that are among the lowest in the nation, has led Californians to attain one of the highest rates of college attendance among the states.

Our nearly 300 public and private colleges and universities educate over 2 million students each year, or nearly one out of every 10 California adults.

Over the past eight years, this Administration has funded major initiatives to revitalize our colleges and universities, and to enable these institutions to meet the major challenges now facing our higher education system and our state. Resources for instruction and research have been provided to guarantee the continued attraction of talented students and faculty. New facilities have been funded to accommodate burgeoning enrollments. Educational equity and affirmative action programs have addressed the needs related to the

Table 4-1

Higher Education Expenditures General Fund, Lottery Funds, Student Fees and Local Revenue Sources

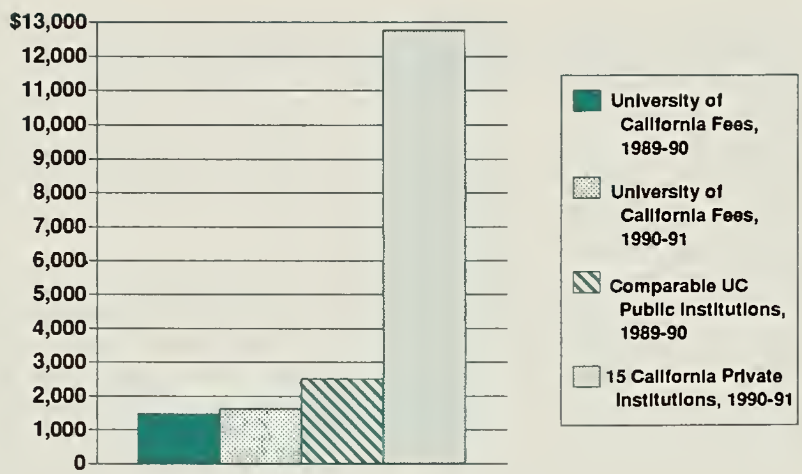
(Dollars in Millions)

	1982–83	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*1989–90*	***1990–91***	*1990–91 vs 1982–83*
Univ. of California [1]	1,356.9	1,375.7	1,713.3	1,947.8	2,073.2	2,230.5	2,367.1	2,595.2	**2,672.2**	96.9%
Calif. State University	1,107.6	1,209.5	1,398.2	1,541.7	1,628.9	1,735.3	1,830.9	2,025.3	**2,094.6**	89.1%
Student Aid Commission	79.4	81.1	90.8	105.8	112.1	118.1	129.2	155.5	**160.1**	101.6%
Other Higher Ed.[2]	43.2	42.4	45.9	48.3	45.9	62.9	59.5	71.2	**93.3**	116.0%
"Total" Funds	$2,587.1	$2,708.7	$3,248.2	$3,643.6	$3,860.1	$4,146.8	$4,386.7	$4,847.2	**$5,020.2**	94.0%

[1] For purposes of this table, expenditures for the University of California have been adjusted to include student fees and other offsetting income. This provides consistency in comparing magnitudes and growth among the various segments of education.
[2] The Other Higher Education amount includes General Obligation Bond Interest and Redemptions and Interest on PMIA Loans for UC, CSU and HCL; California Postsecondary Education Commission; Hastings College of the Law; and California Maritime Academy.

Figure 4-A

University of California
Comparison of Fee and Tuition Levels
at Comparable Universities
and California Private Institutions



state's growing demographic diversity to ensure educational opportunities for all our citizens. New programs focused on the Pacific Rim will help keep California in the vanguard of commerce and economic development.

The Administration's commitment to higher education has been maintained even during years when state resources were constrained. From 1982–83 to 1990–91, funding for public higher education (excluding community colleges) will have increased by nearly $2.4 billion, or 94 percent (see Table 4-1). The full-time equivalent students served by the four-year public institutions has increased to over 430,000, or an increase of nearly 58,000 (see Table 4-2). Student aid funding will have increased by 97 percent, and the number of students receiving grants from the Student Aid Commission to attend public and private institutions will have risen by 29 percent to 82,500.

The 1990–91 Budget continues the Administration's effort to make higher education available to every student in the state by providing $42.7 million for increasing enrollments, and $428 million for the construction of new classrooms and other facilities.

In addition, the 1990–91 Budget provides, for the first time in 20 years, funds for a new campus at the California State University, and continues funding for new campus planning at the University of California.

University of California

The University of California's (UC) nine campuses are recognized nationally and internationally for the excellence in their programs. Over the past eight years, this Administration has endeavored to support UC at a level that will maintain the continued excellence of its programs. Between 1982–83 and 1990–91, the University's operating budget has increased by approximately 97 percent to $2.7 billion. Budget increases have supported the substantial replacement of obsolete instructional equipment, greater student access to computers for instructional purposes, and improved maintenance and repair of buildings.

Student Enrollment. Over the past several years, there has been a steady increase in demand for admission to the University of California among undergraduate students eligible for admission. Students in the upper one-eighth of California's high school graduating class are eligible to attend UC. During this Administration, undergraduate enrollments have increased by 23,214 full-time equivalent (FTE) students, or 25 percent. During the same period, general campus graduate and health sciences enrollments have increased by a net 1,244 FTE students, primarily in disciplines of major significance to California's economic health such as engineering and the sciences. To support these increases, $133 million has been provided.

The University will have a student enrollment of 154,101 FTE students in 1990–91. This total comprises 142,079 FTE students at the general campuses and 12,022 FTE students in the health sciences. This reflects an increase over the 1989–90 budgeted level of 1,888 general campus undergraduate students. The 1990–91 budget includes $11.1 million to support this increase.

Research. The University is designated as the primary academic agency for state-funded research. Since 1982–83, this Administration has provided an increase of $85 million for the University's research in areas of particular concern to California, including AIDS research,

Table 4-2

Higher Education
Full Time Equivalents (FTE)

	1982–83	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*1989–90*	***1990–91***	*1990–91 vs 1982–83*
University of California.	129,643	130,822	133,705	136,928	141,776	145,983	150,020	152,213 [1]	**154,101**	24,458
California State University	240,990	241,549	242,295	248,025	252,331	257,839	267,451	267,380 [2]	**274,500**	33,510
Hastings College of the Law	1,466	1,474	1,494	1,463	1,466	1,341	1,341	1,340 [1]	**1,340**	−126
California Maritime Academy.....................	476	466	441	406	352	337	358	371 [1]	**380**	−96
Total Students................	372,575	374,311	377,935	386,822	395,925	405,500	419,170	421,304	**430,321**	57,746

[1] Budgeted.
[2] Budgeted. Estimated Actual 1989–90 enrollment is 272,081 FTE.

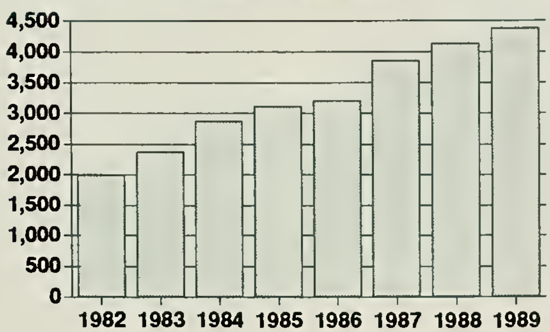
toxic substances, biotechnology, earthquake engineering, and renewable natural resources. For 1990–91 the research budget totals $184 million.

Student Fees. The underlying fee policy is to keep fees as low as possible with increases, if necessary, that are gradual, moderate and predictable. In 1985–86 and 1986–87, fees were maintained at the 1984–85 level. Fees were increased by 9.1 percent in 1987–88; by 4.4 percent in 1988–99; and by 3 percent in 1989–90. For 1990–91, fees will increase by 10 percent, or $148, resulting in a fee of $1,624 per year. Even with this increase, University fees remain low compared to those of similar institutions across the nation. (see Figure 4-A) To ensure that no student is denied access to the University as a result of this fee increase, sufficient financial aid funding has been provided for students from low income families who will be unable to afford the fee increase.

Figure 4-B

University of California
Enrollment Growth of
Underrepresented Minority Freshmen

(Number of Students)



Student Affirmative Action. Between 1982–83 and 1990–91, the Regents and this Administration together have added $7.5 million to the University's budget for programs designed to increase the representation of ethnic and racial minorities, and women where underrepresented among the University's students and faculty. From 1982 to 1989, among California residents, the number of new freshmen from underrepresented groups enrolling at the University more than doubled, from 1,994 to 4,383—an increase of 120 percent. (see Figure 4-B)

Capital Outlay. This Administration has provided increased funding for capital improvements to recognize both a serious shortage of space related to enrollment growth and technological or functional obsolescence of existing space. The 1990–91 budget provides a total of $232 million for the University's capital outlay program financed from bond funds. Since 1982–83 this Administration has authorized $1.2 billion for the University's capital outlay program. This funding has supported construction, renovation, and expansion of classrooms, laboratories, and libraries as well as projects

to renew infrastructure on the campuses and meet safety requirements.

California State University

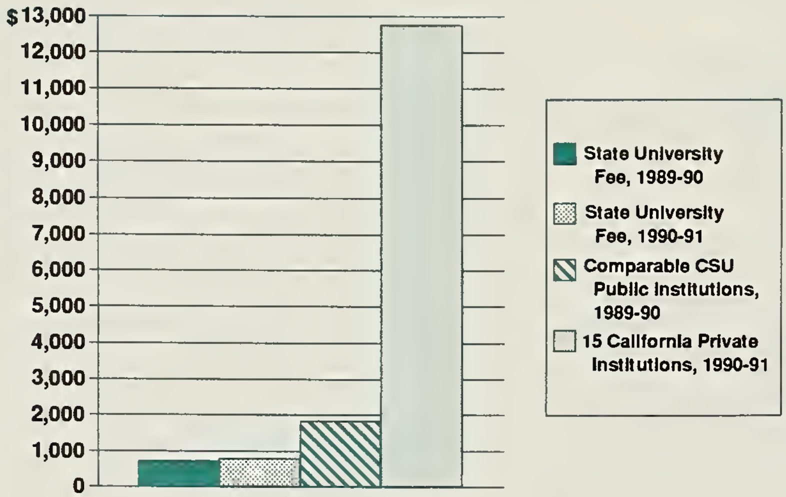
The California State University (CSU) enrolls over 372,000 individual students and is the largest four-year system of higher education in the nation. CSU awards about 53,000 baccalaureate and graduate degrees annually. By the time the 1990–91 academic year is completed, CSU will have awarded about 420,000 degrees during this Administration, a number which is equivalent to the entire population of Long Beach. During this Administration, CSU's budget has grown to $2.1 billion, an increase of 89 percent.

Enrollment. The past eight years have been a period of major enrollment growth for CSU. The number of full-time equivalent (FTE) students will have increased by 33,510 (14 percent), to 274,500, which is an increase of 7,120 FTE students over the 1989–90 budgeted level. To help accommodate this burgeoning growth, three new off-campus learning centers were established and a new campus was founded in 1989. The 1990–91 budget provides $32.1 million and 746 personnel years for new enrollment.

Faculty Initiatives. Recognizing that the caliber of a university is determined by the caliber of its faculty, this Administration has added significant resources which have helped CSU attract and retain high-quality faculty. The 1990–91 budget includes $24.1 million for a 4.9 percent faculty salary increase effective January 1, 1991, bringing the cumulative increase in faculty salaries under this Administration to 69 percent. Additional resources were provided for recruitment, and above-scale salaries in high demand disciplines such as engineering and computer science, and faculty research.

Figure 4-C

**California State University
Comparison of Fee and Tuition Levels at Comparable Public and California Private Institutions**



Instructional Materials. To help ensure that students are provided with state-of-the-art instructional materials, the Administration established a program for the regular replacement and upgrading of instructional equipment. Under this Administration, over $85 million has been provided for this purpose. Resources were also provided to integrate the use of computers into classroom instruction; CSU now has nearly 13,000 computers, or about 62 percent of the estimated need. In addition, funds were provided to augment instructional supplies and services, and improve technical staffing for instructional laboratories and sophisticated equipment.

Maintenance of Facilities. This Administration has provided CSU additional resources to maintain its buildings and ensure their safety. When the Governor took office, CSU buildings had been neglected, and critical maintenance had been deferred. A cumulative total of $67 million has been provided for deferred maintenance and special repairs, $3.5 million to increase the ongoing level of building maintenance, and $36 million for asbestos abatement.

Telecommunications and Data Processing. The Administration has also provided resources to equip CSU with up-to-date technology to manage its institutions. Since 1985–86, $15 million has been provided to install new telecommunications utilities on 12 campuses. A total of $4.5 million has been spent on the automation of library catalogs, which has been completed on 12 campuses. The Administration provided $1 million for a study of administrative computing, and CSU campuses have utilized the study's findings to make more efficient use of existing resources in upgrading equipment and systems.

Student Fees. During this Administration, a consensus was reached on policy towards student fees: fees would increase based on the

increase in state support, and could be increased by 10 percent during years of fiscal imbalance. Financial aid would be provided to cover fee increases for students who could not afford them. This policy was placed in statute in 1985. The 1990–91 budget continues this policy, and includes a fee increase of 10 percent, or $72 for a full-time student. With this change, mandatory systemwide fees since 1982–83 will have risen from $430 to $780, and fee-related financial aid from $4.3 million to $21.3 million, including $6.7 million additional aid provided for 1990–91. Currently, CSU fees are less than half of those at comparable institutions, and 14 times less than major California private institutions. (see Figure 4-C)

Underrepresented Students. This Administration has also undertaken programs to help those students facing particular challenges achieve academic success. Affirmative action programs have increased by $18.8 million, and provide a variety of intensive learning and support services. In 1987–88 and 1989–90, nearly $1 million was provided to increase child care services for student parents, and over $1 million was provided to add new types of services for learning disabled students. For 1990–91, $551,000 is included to increase the maximum amount of financial aid grants in the Educational Opportunity Program.

Intersegmental Programs. Cooperative programs with other education segments have been established and now have annual budgets of $4.3 million. These programs employ a variety of means to improve the preparation of underrepresented students for higher education, assist students in transferring from community colleges, and improve the success of new teachers in the classroom.

Capital Outlay. With the 1990–91 budget of $201 million, this Administration will have provided a total of $808 million since 1982–83 for capital construction to renovate and modernize existing facilities and to construct new facilities to meet the needs of a rapidly expanding student enrollment. A total of 104 new projects have been initiated. They include new and renovated classrooms, laboratories, libraries, physical education facilities and high technology projects such as engineering and science buildings.

Student Aid Commission. This Administration's support of student aid programs reflects a strong commitment to providing educational opportunities to all students, including those with limited financial resources. Since 1982–83, support for the California Student Aid Commission's grant programs has increased by over 97 percent to $170 million. These programs will serve 82,500 students in 1990–91, 29 percent more than were served in 1982–83.

Not only has support for these programs grown significantly, but the programs have been restructured to insure a more efficient delivery of funds. Through the Cal Grant A program, needy students are provided with funds to help cover tuition and fee costs. Through the Cal Grant B program, students receive not only a grant to help cover tuition and fee costs, but also a monthly stipend to help cover living expenses. The focus of the Cal Grant B program is on students from disadvantaged backgrounds.

Beginning in 1989–90, funding for the Cal Grant A and B programs was increased in order that Cal Grants for University of California and California State University students could fully cover both systemwide and campus-level mandatory fees. This increase in funding for the Cal Grant programs allows UC and CSU fees to be covered with a single grant, while previously grants from the Student Aid Commission and the students' campuses had to be coordinated and combined to fully cover these expenses.

In addition to the growth and changes in the Cal Grant programs since 1982–83, two new programs administered by the Student Aid Commission have been established during this Administration. Through the Assumption Program of Loans for Education, student loan debt is forgiven for teachers teaching in subject shortage areas (math, science, bilingual education) or in schools with high proportions of students from low-income families. In addition, Cal Grant recipients entering qualified teacher credential programs are now eligible to receive an extra year of grant assistance.

The state has also funded a pilot work-study program. Through this program, college and university students at 15 California schools receive the opportunity to earn money to help defray educational expanses while gaining educationally beneficial and career-related work experience.

For 1990–91, the Budget provides the following major increases:

- $4.7 million for Cal Grant A and B. This increase will allow the grants to continue to fully cover both systemwide and campus-level mandatory fees for UC and CSU students given the 10 percent fee increases in the Budget Act at the University of California and the California State Unviersity.
- $3.2 million for baseline adjustments in grant and scholarship programs. This increase primarily reflects the continuation costs of the increased number of Cal Grant B awards provided beginning in 1989–90.

Health and Welfare

I believe that this new budget will help continue California on the path of progress and opportunity, and that we all must share in charting a course for our state that balances the needs of all our people.

Governor George Deukmejian
August 1990

Over 30 percent of the State's General Fund resources are directly committed to programs concerned with the public health and social services for needy Californians. In addition, revenues are provided to local governments which, according to local discretion, supplement the allocations reflected in the Health and Welfare section of the state's Budget.

California provides a broad range of services to its citizens needing assistance and opportunities in order to improve the quality of their lives. Services are available in each program area with a major goal being the provision of necessary services in the least restrictive environment, thus avoiding premature or unnecessary institutionalization. Individual programs include alcohol and drug prevention, cash assistance grants, medical care, community mental health treatment and meals for the elderly.

Accomplishments

During the tenure of this Administration, state funding for programs within the purview of Health and Welfare have grown by over 98 percent. While this is a dramatic increase, in order to fully understand the impact of this additional funding on the lives of Californians, it is important to consider some of the details of this additional funding. Specifically:

- State funding for AIDS programs has grown from $3.4 million in 1983–84 to over $73 million in 1990–91. A new AIDS research facility at San Francisco General Hospital has been built and funding has been provided for the development and clinical trials of an AIDS vaccine.
- $17 million has been dedicated to develop and implement the largest birth defects monitoring program in the world.
- In the AFDC program, the maximum grant (for a family of 3) has increased from $506 per month to $694 per month which, except for Alaska is the highest in the country. This represents an increase of 37 percent over the 1982 levels, and exceeds the increases granted by such states as New York, Pennsylvania, Illinois, Ohio and New Jersey.
- Medi-Cal rates to providers for maternity care have risen by over 73 percent.
- California has the world's largest population-based cancer.registry.
- Regional Centers are serving an additional 34,000 developmentally disabled clients, an increase of 50 percent, while the average funding provided for each client has increased by 74.5 percent.
- California's GAIN Program has served as a model for the nationwide Job Opportunity and Basic Skills programs contained in the Family Support Act of 1988. Based on California's experience with this program, this year the Governor proposed major changes to make this worthy program more work-oriented.
- The number of abused and neglected children served monthly has grown from 19,126 to 138,900, over 625 percent.
- The Governor's Mental Health Initiative has added a total of 1,136 personnel years and $51.6 million annually in General Fund to deliver a comprehensive program of planned scheduled treatment. In addition, at an estimated total cost of $180 million, over 130 hospital wards will be renovated to ensure compliance with current fire, life safety and environmental standards. The net result of these efforts has been to achieve national accreditation for all of California's state hospitals.

The 1990 Budget Act, as signed by the Governor, provides funding for the most urgently needed Health and Welfare programs, consistent with the need for State Government to live within the available revenue increase. Funding for Health and Welfare programs increased by 6.1 percent in 1990–91 as compared to 1989–90. This funding plan includes funding for caseload increases in the Medi-Cal and AFDC programs as well as increased funding to assist the developmentally disabled, combat drug abuse and meet a plethora of restrictive requirements by the courts and the federal government.

For 1990–91, Health and Welfare expenditures total $26.5 billion in combined state and federal funds and account for over 41,000 personnel years. This is an increase of over

$1.5 billion over 1989–90. This additional funding includes the amount necessary to meet the needs of increased caseload in various programs. (Refer to Table 5-1 for caseload totals.)

Department of Alcohol and Drug Programs

The abuse of alcohol and drugs is estimated to cost Californians an estimated $1.7 billion annually for treatment and support services, and $3.3 billion for law enforcement, social welfare programs and losses in motor vehicle accidents. In addition, major costs are associated with substance-related increases in mortality, reductions in productivity and lost employment opportunities.

To address these problems, the Department of Alcohol and Drug Programs, in partnership with county governments, administers a statewide program of alcohol and drug abuse prevention, intervention, detoxification, recovery and treat-

Table 5-1

Major Health and Welfare Program Caseloads

	Average Caseload		
	1983–84	***1990–91***	*Change*
1. California Children's Services (treatment of physical handicaps)	83,180	**123,560** [a]	40,380
2. Medi-Cal (provisions of medical services to eligible poor)			
a. Certified eligible	2,834,400	**3,623,100**	788,700
b. Average monthly users (fee-for-service only)	1,221,180	**1,556,930**	335,750
3. AFDC (support for unemployed persons with minor children)	546,692	**680,700**	134,008
4. SSI/SSP (support for aged, blind and disabled)	651,867	**849,700**	197,833
5. State Hospitals			
a. Mental health clients	4,754	**4,833** [b]	79 [h]
b. Developmentally disabled clients	7,395	**6,768** [b]	−627 [h]
6. Community Developmentally Disabled Services			
a. Regional centers	70,898	**102,778** [f]	31,880
b. Work activity program	12,009	**17,972**	5,963
7. Vocational Rehabilitation	14,343	**22,500**	8,157
8. Employment Services (individuals placed)	275,485	**333,000**	57,515
9. Unemployment Services (total weeks claimed)	23,851,950	**19,953,200**	−4,598,750
10. Meals for Elderly Citizens	257,402	**247,748** [c]	−9,654 [i]
11. In-Home Supportive Services	100,000	**151,200**	51,200
12. Child Welfare Services	43,193	**139,600** [e]	96,407
13. Food Stamps	591,987	**673,000**	81,013
14. Alcohol Programs	208,000	**205,000** [d]	−3,000 [d]
15. Drug Programs	125,200	**150,000** [d]	24,800 [d]
16. Community Mental Health	100,000	**130,000** [g]	30,000

[a] This figure represents the unduplicated number of children in the CCS Program.

[b] Represents the year-end population upon which the Budget is based.

[c] Unduplicated participant count.

[d] Number of participants served during the fiscal year. It should be noted that the type of programs offered to drug and alcohol abusers in 1990–91 are of longer duration than in 1983–84. Therefore services have increased more than indicated by head counts.

[e] Represents monthly Emergency Response, Family Maintenance, Family Reunification and Permanent Placement service area. Due to transfers between each service area a case may be reflected in more than one service area. 1983–84 caseload figures may not be strictly comparable to later years as legislation which created the four service categories was being phased in during this period.

[f] Represents the midyear average, including developmental center clients.

[g] Represents an average monthly unduplicated caseload as reported in the client data system.

[h] State hospital programs have not grown due to emphasis on increased community treatment. See No. 16, Community Mental Health.

[i] Since 1983–84, the number of meals served per year has increased from 16.5 million to 20.3 million, even though the number of people served has gone down; the program is simply providing more meals per person.

Table 5-2

Number of Optional Benefits Provided by the Ten Most Populous States, 1989–90

State	Number of Optional Benefits Provided to: Cash Grant Recipients	Medically Needy Recipients
California	30	30
New York	28	28
Texas	18	18
Pennsylvania	20	18
Illinois	28	28
Ohio	26	–
Florida	19	16
Michigan	30	30
New Jersey	28	20
North Carolina	21	21

Source: Health Care Financing Administration, October 1989.

ment services. In 1990–91, the total Department's budget will be $268.9 million and 251.5 personnel years, with nearly $235.3 million of this amount subvened to local governments. This represents an increase of $62.4 million over the amounts made available in the 1989 Budget Act under the Alcohol, Drug Abuse and Mental Health Administration Block Grant and the Drug Free Schools and Communities Block Grant.

An important initiative is expanded in the 1990–91 Budget in the area of the problem of infants born with mental and physical deformities due to substance abuse. Funding for two new pilot counties will join the current five pilot projects in four counties (Los Angeles (2 pilots), Alameda, Sacramento, and San Diego). In addition, for the first time funding has been added for planning grants for ten additional counties. This brings the total 1990–91 funding level for these pilots to $15 million, an 86 percent increase over the 1989–90 level. The objective of the pilots is to develop strategies to stem the rapid growth in the number of infants being born with drug addiction, fetal alcohol syndrome, and AIDS.

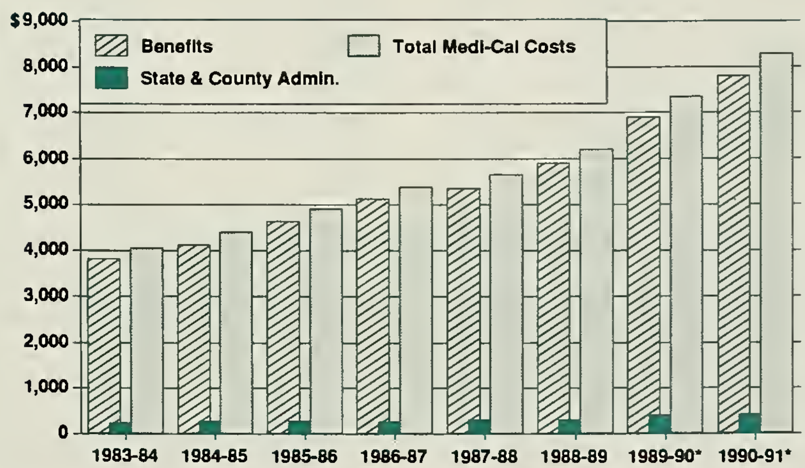
Two other critical populations will be targeted by pilot programs. The first is the high-risk youth population. The 1990 Budget Act provides $4.3 million for an innovative project which will involve the concerted efforts of eight participating high schools and their communities. The project will strive to aid the schools and their communities in reducing the distribution of drugs and alcohol in and around the schools, developing linkages to provide work opportunities for high-risk youth, developing vocational, educational, and social alternatives to using and distributing drugs and alcohol, and building pride and commitment through participation in the program.

The second critical population targeted is prison inmates and parolees. Three pilot projects, one in a state prison and two in participating counties, will receive $1 million to determine the effectiveness of a comprehensive approach to managing inmates and parolees with drug and alcohol abuse-related problems.

Figure 5-A

Growth of Medi-Cal Costs 1983-84 through 1990-91

(Dollars in Millions)



* Includes total amounts estimated for 1989-90 and 1990-91. Includes 1989-90 Deficiency Bill in that fiscal year.

Department of Developmental Services

The Department of Developmental Services is the principal state agency that assists and provides services to Californians with developmental disabilities. The Department administers seven developmental centers and contracts with 21 regional centers throughout the state to provide diagnosis, evaluation and provision or coordination of services. The services provided may include housing, education, transportation, job training, therapy and medical care. Developmental disability prevention and early intervention services are also available for high-risk infants and/or their parents. For 1990–91, the budget includes a funding level of $1.16 billion and 11,398 personnel years for the Department. This represents an 81 percent increase over the 1982–83 funding level of $643 million.

Community Services will receive $579.8 million or a 5.5 percent increase over the 1989–90 level of $547 million. The regional center budget reflects a 5.8 percent caseload growth of 5,273 clients for total average caseload in 1990–91 of 102,778 clients. Major funding adjustments include:

- Increased funding of $39.4 million to reflect a variety of adjustments for the developmental centers including funding for additional staff coverage, a salary savings reduction, housekeeping cost increases and provision of lottery funding.
- An increase of $37.1 million in the regional center budget over the prior year for caseload growth, implementation of the final phase of the Alternative Residential Model and associated cost increases.

Despite these increases in funding, the services provided to the developmentally disabled in California are less than might have been the case in the absence of constraints by the federal government. Targeted Case Management services are eligible for federal funding under the Medicaid program, which is administered in California as the Medi-Cal program. California submitted a State Plan Amendment to the federal government to qualify our case management services for Medi-Cal funding. While the State Plan Amendment was approved, the federal government has refused to pay California's claims on the grounds that the Secretary of Health and Human Services is not required to authorize payment for any services which a

Comparison Of Payment Standards For The Ten Most Populous States Effective July 1989

States [1]	*Independent Living Arrangement — Aged and Disabled* [5] *Individuals*	*Couples*	*Maximum Aid Payment Family of 3*
California	$602.00	$1,116.00	$694.00
New York [2]	454.00	655.00	539.00
Texas [3]	368.00	553.00	184.00
Florida [3]	368.00	553.00	287.00
Pennsylvania	400.00	602.00	384.00
Illinois [4]	368.00	553.00	342.00
Ohio [3]	368.00	553.00	321.00
Michigan [2]	398.00	598.00	568.00
New Jersey	399.00	578.00	424.00
North Carolina [3]	368.00	553.00	267.00

[1] In descending order by state population, current population report, U.S. Department of Commerce, Bureau of the Census.

[2] SSI/SSP grant level and AFDC maximum aid payment vary within the state by region and other factors. For example, Suffolk County in New York State provides the highest AFDC grant ($730.00). However, 70 percent of AFDC recipients reside in New York City where the maximum aid payment is $539.00.

[3] These states do not supplement SSI for an independent living arrangement.

[4] Does not have a standard SSP allowance. Payments are based upon individual needs and circumstances. The average supplement in May, 1989 was $94.85.

[5] In California blind individuals receive an additional $71.00 and blind couples receive an additional $196.00. The other states shown do not provide such a differential.

state routinely provides to clients for free. Case management services have been provided to clients free of charge for many years in California as part of our overall Developmental Services program and would be eligible for claiming nearly $33 million from the federal government if the State Plan Amendment had been approved.

Department of Health Services

The Department of Health Services is responsible for a variety of programs which emphasize prevention-oriented health care, delivery of medical services to the economically disadvantaged, protection of California's citizens from unsafe foods, drugs, drinking water and hazardous materials and enforcement of health standards in health facilities. The budget for 1990–91 is $5.0 billion in state funds and $5.0 billion in federal funds, exclusive of the Toxic Substances Control Program.

Acquired Immune Deficiency Syndrome. The 1990–91 Budget Act reflects California's continued commitment to funding for AIDS treatment and research. In 1990–91, $126,372,000 ($73,273,000 GF, $53,099,000 FF) is budgeted for statewide AIDS programs. Included within 1990–91 funding is:

- $15,825,000 for Prevention Education and Evaluation Grants;
- $5,488,000 for County Block Grants;
- $1,199,000 for Confidential Testing and Education;
- $6,116,000 for Community Support Treatment Pilot Projects;
- $5,300,000 for Early Intervention;
- $5,412,000 for Anonymous Testing;
- $721,000 for AIDS Homeless Shelters.

Medically Indigent Adults. In order to maintain the most essential programs in the Health and Welfare area and to meet the requirements imposed by the federal government and the courts, the Legislature and the Administration reached an agreement to fund the Medically Indigent Adult Program at the level of $508.6 million, a reduction of $175 million. However, it should be noted that AB 2557, which was signed by the Governor, will provide counties with additional discretionary revenue, which is expected to be sufficient to offset this funding reduction, if counties allocate this revenue to indigent health care.

Medi-Cal. The California Medical Assistance program (Medi-Cal) provides reimbursements for medical care services to low income persons and families. Medi-Cal is intended to assure the provision of necessary health care services to public assistance recipients and others who cannot afford to pay for these services themselves. The budget for 1990–91 includes $8.1 billion to serve an average monthly caseload of 3.6 million people. This represents a growth rate of $896.6 million or 12.4 percent over the 1989–90 expenditure level, and $4.1 billion or 102.2 percent over the 1983–84 level, the year Medi-Cal reform was fully implemented. (The foregoing treats all July 1990 Medi-Cal deficiency bill expenditures as occurring in 1989–90 though, technically, they occurred in 1990–91.)

The growth in Medi-Cal expenditures continues to reflect the fact that while the number of eligibles and administrative costs have grown slowly, most of the increase in costs has been for Medi-Cal benefits (see Figure 5-A). This is due, in part, to the large number of health benefits included in the Medi-Cal program (see Table 5-2).

In 1990–91, an average of 3,623,100 individuals will be eligible for Medi-Cal each month, an increase of 4.4 percent over 1989–90. An average of 1,556,930 individuals will use services each month, an increase of 3.3 percent compared to 1989–90 (see Table 5-1).

The cost to California of operating the Medi-Cal program has been substantially increased because of actions by the courts and the federal government. As an example, in 1986 the federal government extended coverage for emergency services to undocumented aliens and aliens with temporary visas if they were otherwise eligible. The eligibility for this program has been further defined by the courts and the Legislature resulting in a 1990–91 cost to the Medi-Cal program of over $364 million ($193 million G.F.). The federal Catastrophic Coverage Act requires that the Medi-Cal program pay the Medicare premiums, coinsurance, and deductibles for certain aged and disabled persons with income under 90 percent of poverty in 1990 (increased annually up to 100 percent of poverty in 1992) and property under 200 percent of SSI/SSP limits. In addition, the Catastrophic Coverage Act specifies that the spouse of a long-term care patient may retain $62,580 (in 1990) of the couple's property. Any property over $62,580 is considered available to the person in long-term care. The 1990–91 costs of this federally required program is estimated to be $123 million ($54 million G.F.).

The 1990–91 Budget contains a number of cost saving measures, including:

- Increased savings of $54 million General Fund from establishment of a Cost Recovery System to claim additional State Legalization Impact Assistance Grant (SLIAG) funds for program expenditures for beneficiaries not known to the Medi-Cal Program as Immigration Reform and Control Act (IRCA) eligibles.
- Increased savings of $163.4 million ($81.7 million GF) to be achieved by reducing fraudulent billing practices concerning incontinence supplies and from awarding a competitive bid to supply these products to the Medi-Cal Program.
- Increased savings of $50 million ($23.9 million GF) to be achieved from the establishment of a Drug Discount Program to require rebates from prescription drug manufacturers.

Department of Social Services

The Department of Social Services is responsible for providing protection, care and other assistance to needy eligible persons of this state. These services are provided through the Department's Welfare, Social Services, Community Care Licensing, Disability Evaluation and Employment Services programs. The budget for 1990–91 is $6.3 billion state and $4.2 billion federal funds and 3,646.6 personnel years. This represents a $5.2 billion, or 101.3 percent increase from the revised 1982–83 total funding level.

Major changes in these programs reflected in the 1990 Budget Act are as follows:

Aid to Families with Dependent Children—(Family Group and Unemployed). The Budget includes total expenditures of $5 billion ($2.4 billion GF/$2.6 billion FF) in 1990–91. This represents an increase of $283.4 million ($151.4 GF), or 6.1 percent, over the 1989–90 level, to fund caseload increases and reductions in federal funding levels for refugee programs.

As part of the budget negotiations, the Legislature passed Assembly Bill 3573 to provide the necessary authority to suspend the statutory cost-of-living adjustments (COLA) for the AFDC program. The COLA suspension accounts for a savings of $114.3 million General Fund in 1990–91. Despite the one-year suspension of the COLAs, California's grant levels are still among the highest in the nation. A comparison of the 1989–90 AFDC maximum payment standards between California and the nine most populous states is presented in Table 5-3. The relative positions of the states is expected to continue in 1990–91. The budget also includes $38.2 million ($19.1 million GF/$19.1 million FF) for the first full year of funding for the Transitional Child Care program.

Aid to Families with Dependent Children—(Foster Care). The Budget includes total expenditures of $843.1 million, ($625.4 million GF/$217.7 million FF) in 1990–91. This amount includes an increase of $187.8 million, or 28.7 percent, over the 1989–90 level, which is attributable to a 13.9 percent caseload increase and costs for the implementation of Comprehensive Foster Care Rate.

Specifically, recognizing the importance of addressing various long-standing and immediate problems in the areas of foster care funding and program management, the 1990–91 Budget includes $84.1 million ($58 million General Fund) to provide funding for Foster Family Home and Group Home rate adjustments, and $1.0 million ($623,000 General Fund) and 17 personnel years to implement the requirements of Comprehensive Foster Care Rate Reform.

Supplemental Security Income/State Supplementary Program (SSI/SSP). The Budget includes total expenditures of $2.3 billion from the state General Fund and $3.3 million in federal funds in 1990–91. This represents a General Fund increase of $67.6 million, or 3.1 percent, over the 1989–90 level. The $67.6 million increase is attributed to a 4.7 percent caseload increase over 1989–90.

The budget reflects savings of $145 million General Fund as a result of the suspension of the statutory cost-of-living adjustment (COLA) for SSI/SSP recipients pursuant to AB 3573 and reduces $2 million General Fund from the Special Circumstances Program, which is administered by the counties and directly tied to the SSI/SSP.

A comparison of 1989–90 SSI/SSP payment standards for California and the nine other most populous states is presented in Table 5-3. Despite the suspension of the COLAs, the relative positions of the states is expected to continue in 1990–91.

In-Home Supportive Services. The Budget provides $641.1 million ($317.3 million GF/$323.8 million FF) for the In-Home Supportive Services (IHSS) program. This represents an increase of 9.9 percent over the 1989–90 level of $583.6 million. The $57.5 million increase in this program is attributed to a 5.7 percent increase in caseload and an approximate 2 percent increase in the average monthly number of hours of service each recipient receives.

Time Eligibility for Refugees. Under the federal Refugee Act of 1980, the federal government reimburses the state for 100 percent of the state's portion of the cost of Medi-Cal services for 24 months. However, since January 1990, federal funding has been reduced to 4 months. This reduction will cost the state an additional $81.7 million per year ($47 million in Aid to Families with Dependent Children Program, $14.7 million in SSI/SSP, and $2.7 million in County Administration). This change also impacts the Medi-Cal program resulting in an additional cost of $17.3 million General Fund in 1990–91. In addition, Refugee grant awards have been significantly below estimated needs. It appears this shortfall in Refugee funding will continue.

Department of Mental Health

Approximately 320,000 Californians will receive services from state and county mental health programs in 1990–91. The services vary according to the needs of the individual. Within the mental health continuum of care, individuals with manageable disorders are treated in the community with funds subvened to county mental health programs. Individuals with the most serious illnesses, and those whose disorders make them incapable of living in the community, receive fulltime inpatient care at the state mental hospitals operated by the Department of Mental Health. In 1990–91, the Department's budget provides $1.19 billion to support both hospital and community programs while in 1982–83 the corresponding funding level was $624 million. This amounts to a 91.3 percent increase since the Governor assumed office.

Included in these figures are the following adjustments:

- $6.7 million for Case Management Services which are now reimbursable services in the Short-Doyle/Medi-Cal Program.
- $10 million in additional Proposition 99 funds for local mental health programs.
- Approximately $18 million for the State Hospitals to accommodate population increases and to reduce the salary savings rate to 5 percent.

In order to maintain a prudent reserve as well as dealing with funding requirements imposed by the courts and the federal government, it was necessary for the Governor to delete $61 million in funding for local mental health programs from the Budget Bill sent to him by the Legislature. It should be noted that AB 2557, as signed by the Governor, provides additional revenue to counties which may be used to offset these reductions if counties choose to do so.

Public Safety

If law-abiding citizens are to be protected, then new prisons must be built. And guaranteeing public safety, through the construction of new prisons, is a responsibility that all our citizens must bear equally.

Governor George Deukmejian
June 1990

Throughout the eight years of this Administration, protecting the California public through a variety of public safety programs has been a priority objective. The nearly threefold increase in the state's adult prison population results from continued support for tougher criminal penalties, particularly for weapons and drug crimes, and from increased law enforcement efforts. The 1990–91 Budget provides the expanded correctional and other law enforcement resources needed to maintain this commitment.

Department of Corrections

The Department of Corrections is responsible for the confinement of convicted felons and for the supervision of these felons once they are released to parole.

On June 30, 1983, the Department housed 37,228 inmates and supervised 18,294 parolees. By June 30, 1991, the Department projects an inmate population of 105,010 and a parole population of 74,845. Even with the dramatic growth in inmate population (see Figure 6-B), the rate of incarceration of California citizens, based upon 1989 data from the Department of Corrections, is 296.2 per 100,000 persons in California. This statistic ranks California at 16th in the country in the proportion of its population in a state prison. Additionally, California ranks 25th in the nation in terms of the percentage of the population under any form of control (prison or parole) of correctional authorities. Thus, while the population has grown rapidly, the change is simply representative of the state regaining the initiative in the fight against crime.

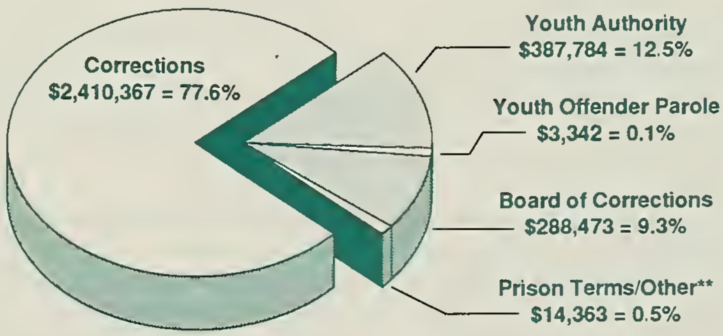
To appropriately manage this growing population, the Department's budget has grown from $549 million and 11,300 personnel years in fiscal year 1982–83 to $2.248 billion and 29,100 personnel years in fiscal year 1990–91, increases of 310 percent and 158 percent, respectively.

Prison Construction. To support this dramatic inmate population growth the Administration began the Department of Corrections' massive prison construction program and by the end of the 1990–91 fiscal year, this program will have added nearly 30,000 new prison beds in eight years, for a total design bed capacity of 55,600 (see Figure 6-C). In addition, new authorizations by the Administration for prison construction will add another 22,000 beds to be completed after the 1990–91 fiscal year, including two prisons with 3,650 beds located in Los Angeles County. The total cost for these expansions and renovation of existing prisons, which will be or have been funded by a variety of sources will be approximately $4.8 billion. While this is a very significant

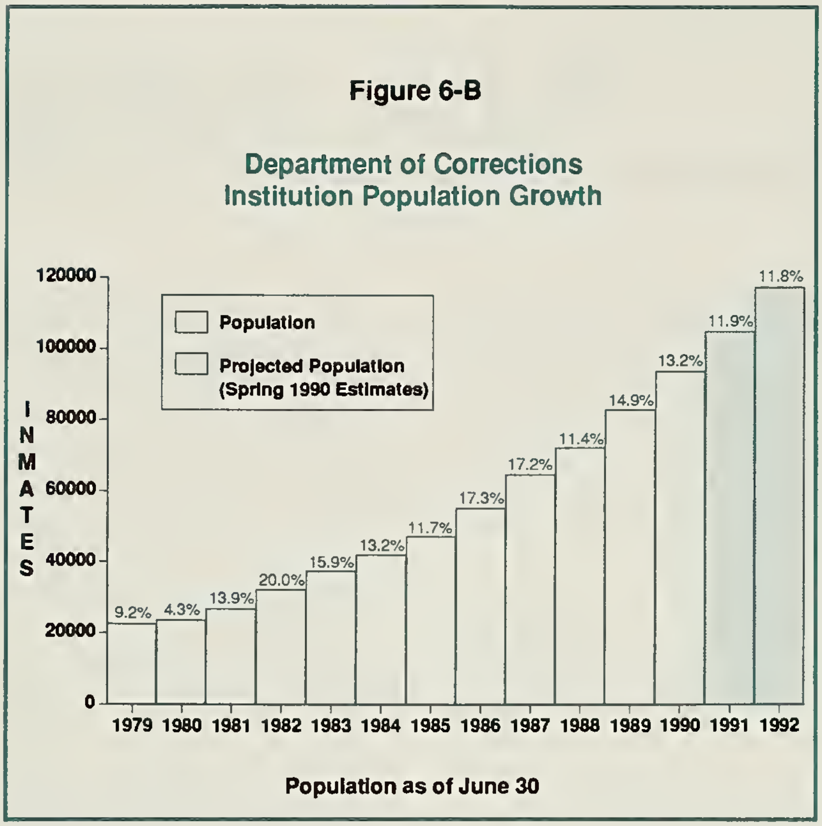
Figure 6-A

Youth and Adult Correctional Agency Proposed 1990-91 Expenditures* All Funds

(Dollars in Thousands)



*Includes state operations and local assistance costs only.
**Includes Agency Secretary and Presley Institute.



increase in prison facilities, much of the construction program was necessitated by the fact that the state failed to build a single new prison in the 18 years prior to the start of this Administration. By using prototype building plans during the planning and construction phase, the Department has saved money while streamlining the design process.

Training and Education. One of this Administration's continuing policy objectives has been to provide education and training programs that will provide felons improved employability skills when they re-enter society.

Since the passage of legislation in 1983, which required full employment for most inmates in exchange for day-for-day sentence reduction credit for work training and education activities, the Department has implemented programs to create over 56,000 work/training assignments for state prison inmates. The work/training program has allowed the Department to maintain approximately 60 percent of inmates productively employed despite a nearly threefold increase in the prison population.

Since 1983, the number of inmates employed by the Prison Industry Authority has increased from 2,400 to over 7,000 today and the sales of the Authority have increased from $34 million to almost $100 million. In addition, since 1983, the Department has expanded its conservation camp program from 23 to 40 camps. Three of these new camps are for female inmates.

During 1989, these camp inmates worked more than 1.62 million hours fighting fires in California and performing environmental enhancement projects. These efforts saved the taxpayers an estimated $16 million. In addition to the conservation camp program, there are community service inmate work crews which work out of each institution and perform a variety of services for the surrounding communities. These include planting trees for communities, repairing upholstery and furniture, maintaining parks, constructing highway signs, renovating fire trucks and school buses, and many other activities. It is estimated this activity involved more than 3.8 million inmate-hours and saved taxpayers in excess of $27 million in 1989.

Health Services. In recent years, the Department has worked aggressively to provide more efficient and extensive mental health services for a growing number of inmates and parolees suffering from psychological illnesses. The Department's efforts include the adoption of an interagency agreement with the Department of Mental Health to provide 507 acute psychiatric care beds, and the implementation of psychiatric outpatient programs at the California Institution for Women, the California Institution for Men, the California Medical Facility, and for parole outpatient clinics statewide.

In response to federal court orders, the department has successfully improved the quality of its medical care by formulating a program to license its major prison medical facilities. Since 1987, the Department has licensed a total of 196 beds in three acute care hospitals at the California Institution of Men, the California Men's Colony, and the California Medical Facility.

Recidivism. Since 1988, the Department has diligently worked to curb the current annual recidivism rate of 52 percent by establishing various substance abuse treatment demonstration projects for its inmates, and by continuing with the second full year operation of the intensive supervision program for parolees with a history of drug abuse.

The 1990–91 Budget provides more than $3 million for the Department's Office of Substance Abuse Programs to begin implementing the Department's plan for various education, training and treatment pro-

grams aimed at reducing substance abuse among inmates and parolees. CDC's work furlough, mother-child, and return-to-custody programs are also being expanded from 1,227 in 1983 to 5,786 beds by fiscal year 1990–91, including 2,560 beds to be built and operated by local government under long term contract to the Department. These community based programs emphasize substance abuse treatment and other services to improve the chance for successful reintegration of CDC inmates back into the community.

Department of the Youth Authority

The primary objectives of the Department of the Youth Authority are to protect society from criminal and delinquent behavior by young people and to provide training and treatment directed toward helping these youths become productive citizens. In fiscal year 1982–83 the Department of the Youth Authority had a budget of $247 million and 4,491 personnel years for operation of the Department. The 1990–91 Budget includes a total of $388 million and 5,103 personnel years for operation of the Department, an increase of 57.1 percent in costs and 13.6 percent in personnel over eight years.

Population. As of June 30, 1990, the Youth Authority operated 11 institutions and 8 conservation camps and housed approximately 8,178 wards. While this population is 2,338 greater than the 5,840 wards in June, 1983, this is 350 wards less than the June 30, 1989, population of 8,528.

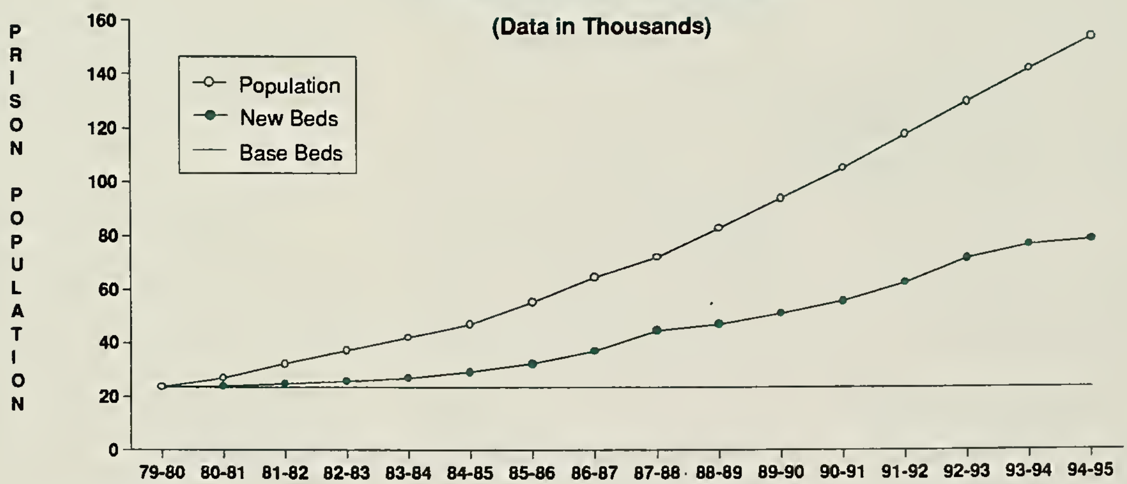
This recent decrease results from a shortening of the average length of stay of the wards in the institutions and a corresponding increase in the number of wards on parole, due primarily to the success of the Department's bed-saving alternative programs. This trend is expected to continue and, by June 30, 1991, the institutions population is estimated to be 8,088, reflecting a further decrease of 90 wards resulting primarily from a program goal to achieve a "zero" balance net time adds/cuts over a three year period.

Ten programs aimed at producing ward bed savings will be implemented by the 1990–91 fiscal year. When fully implemented, these programs will save 1,099 institutional beds. These programs focus on preparing the wards for successful reintegration into the community as productive citizens. Public protection is further increased by providing early detection of problems and early intervention through parole violator services, intensive parole services, home restriction involving use of electronic monitoring devices, secure and structured community drug treatment and ongoing job counseling programs.

Figure 6-C

Department of Corrections Prison Population and Beds

(Data in Thousands)



NOTE: "Beds" represent the institutional design capacity of authorized and proposed institutions and camps. Additional "overcrowding" bed space is provided through other means, such as:

- o Addition of permanent beds in individual cells.
- o Addition of temporary beds in gymnasiums, corridors, auditoriums and dormitories.
- o Addition, through a Parole Division managed program, of Return-to-Custody beds obtained by contracts with local governments and private vendors. These beds are funded in the support budget.

In order to further reduce crowding of the ward population to approximately 119 percent of design capacity by the end of the budget year, the Department has constructed five 100-bed units and has nearly completed the 600-bed N.A. Chaderjian facility (Refer to Figure 6-D for a comparison of population versus bed capacity).

Prevention. From 1982 to the present, other crime and delinquency prevention activities have also been implemented. These activities include doubling the number of Youth Service Bureaus from 8 to 16 and funding for a Regional Educational Facility to give juvenile court judges an additional disposition alternative prior to sending a youthful offender to the Department.

The Youth Authority was the first youth correctional agency in the United States to become partners with private industry to provide training and meaningful employment for incarcerated wards. Wards employed by participating companies become taxpayers and earn wages from which restitution (15 percent) is paid to the crime victims fund; reimbursement is made to the state (20 percent) for room and board; and a portion (40 percent) is placed in a savings account for use by the participants when they return to their communities. The National Office of Social Responsibility (NOSR) in Washington D.C. has used the Free Venture Program as a model for juvenile work programs in other states. The program also served as a model for the Governor's inmate-employment initiative to enable the State prison system to initiate similar free venture projects.

For 1990–91 funding for the County Justice System Subvention Program has been reduced by $33 million. The action was among the numerous program reductions needed to balance the 1990–91 General Fund budget and to provide for a prudent reserve. However, the budget retains $34.3 million for the remaining local juvenile justice programs, which are required pursuant to legislation enacted in 1976.

Local Detention

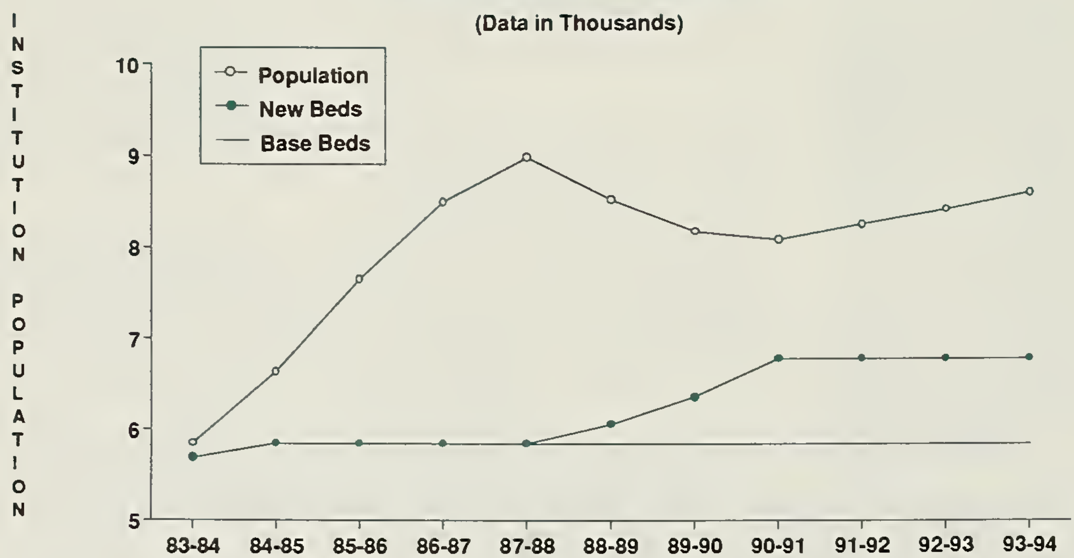
Local detention facilities are also under pressure to handle the increasing number of criminals requiring incarceration. The County Jail Construction Financing Program in the Board of Corrections was started in 1980 to provide counties funding for remodeling or construction of county jails. Since then, five bond acts totaling nearly $1.5 billion have been passed for this purpose.

Nearly $660 million have been disbursed to counties through 1989–90 and $200 million is proposed for the 1990–91 fiscal year. In addition, the Department of the Youth Authority will allocate an additional $19 million

Figure 6-D

Department of the Youth Authority
Institution Population and Beds

(Data in Thousands)



NOTE: "Beds" represent the institutional design capacity of authorized and proposed institutions and camps. Projected population is adjusted for bed savings from alternative programs.

by 1990–91 for local juvenile facilities. Once these funds are fully used, local jail capacities will have been increased by 29,500 beds and over 6,600 beds scheduled for closure due to fire and life safety deficiencies will have been replaced.

Office of Criminal Justice Planning

The Office of Criminal Justice Planning funds grant programs to state and local agencies and community-based organizations in the areas of law enforcement, crime prevention, juvenile justice, criminal prosecution and crime victims' services.

Over the past eight years, this Administration has successfully sought increased funding to initiate and expand a variety of programs focused on the Governor's public safety and drug prevention initiatives including crime victims, crime suppression and drug prevention programs such as the gang violence suppression program, suppression of drug abuse in schools/comprehensive alcohol and drug prevention education program, the victim-witness assistance/rape crisis programs and administration of the federal anti-drug abuse grants.

Since 1982–83, the budget of the Office has grown from $21.3 million to $129.8 million, or by over 500 percent, and has served and protected thousands of Californians through its programs.

Department of Justice

Since 1982–83, this Administration has proposed and supported major program expansions and initiation of significant new programs in the Department of Justice dealing with drug enforcement, criminal and civil prosecution and innovative technologies to assist state, federal and local law enforcement agencies apprehend criminals. In the 1982–83 fiscal year, the Department budget was $118.8 million; the 1990–91 Budget is an increase of $164.2 million, or 138 percent, over the 1982–83 fiscal year.

Major Governor's initiatives included:

- Continued expansion of the Cal-ID automated fingerprint identification system, initiated during the Governor's tenure as Attorney General, which is a promising system of technology that was helpful in the Nightstalker case.
- Establishment of a deoxyribonucleic acid (DNA) analysis crime laboratory in Berkeley to aid law enforcement in identifying perpetrators of violent crimes in which there are no known suspects.
- Establishment of the CrackDown Cocaine Task Force Program to respond to the state's cocaine problem and the emergence of powerful Colombian cocaine smuggling cartels using domestic street gangs as distributors for "crack".
- Increasing the field strength of narcotics agents in the Department of Justice.
- Doubling the support for legal representation on behalf of the people of California in criminal cases before the appellate and Supreme Court and in major civil litigation.

War Against Drugs

A high priority of the Governor has been to strengthen the state's resources in the areas of prevention, treatment and enforcement of drug abuse, drug trafficking and gang violence in California. Since the Governor has assumed office, the level of effort to enhance the state's war against drugs and gangs has grown to an unprecedented $374 million in 1990–91, a 20 .percent increase over 1989–90. This is almost five times the $79 million level spent when the Governor assumed office.

Through combined efforts between state agencies such as the Department of Alcohol and Drugs Programs, the Office of Criminal Justice Planning, the Department of Education and various law enforcement and correctional agencies, the Administration seeks a balanced but aggressive approach to resolving the state's drug and gang violence problems.

Major Governor's initiatives included:

- Increasing funds to provide expanded drug abuse prevention and education programs in schools.
- Establishment of the Governor's Policy Council on Drug and Alcohol Abuse.
- Signing many new laws designed to fight drug abuse in California, including legislation which resulted in stiffer penalties against drug trafficking and drug and alcohol abuse, strengthening the state's authority to seize illegally obtained assets of drug profiteers, and authorizing the use of electronic surveillance to enhance the ability of California law enforcement to investigate drug offenses.
- Increasing funding for narcotics enforcement for all state agencies' efforts from $9 million in 1982–83 to $113 in 1990–91, which is over 12 times the level spent when the Governor assumed office.
- Increasing field strength for narcotics enforcement in departments such as the Department of Justice and the California Highway Patrol.
- Increasing funding for certain anti-drug programs, including major narcotic vendor prosecution and gang violence suppression in schools.
- Appointing tough-on-crime judges and, together with enhanced enforcement efforts, increasing prosecution efforts.

California Highway Patrol

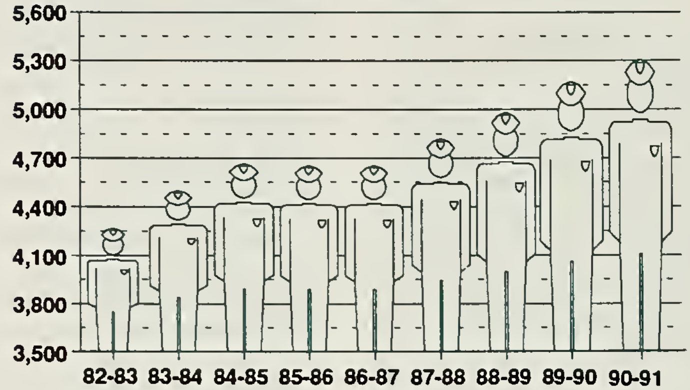
The California Highway Patrol (CHP) is the largest highway patrol in the United States and is recognized for its leadership on public safety issues. For eight years, this Administration has been firmly committed to maintaining this tradition of excellence to assure the safety of

the motoring public and to respond to their needs. The 1990–91 Budget demonstrates the Administration's continuing commitment by providing a funding level of more than $571 million for the CHP in 1990–91, an increase of 82.3 percent above the 1982–83 level. Also, the CHPs staffing levels are budgeted at 8,804 total personnel years for 1990–91, which represents a 22 percent increase over the 7,229.5 personnel years provided in 1982–83. The growth in CHP traffic officers is depicted in Figure 6-E.

The basic responsibility of the CHP is to ensure the safe and efficient flow of traffic on the state's highway system. More than 98,000 miles of California's highway, about two-thirds of all roads in the state, are within the CHP's jurisdiction. In 1988, California drivers logged an impressive 174 billion miles of travel on CHP-patrolled roadways. Yet the mileage death rate, which is the number of deaths occurring on the highway system for each 100 million miles that motorists travel, was only 1.90. The 1988 rate is lower than the national average and represents a significant drop from the 10-year high of 2.76 that occurred in 1980.

Figure 6-E

Authorized CHP Traffic Officers 1982-83 to 1990-91



The CHP sustains a high level of traffic safety through a variety of public education, traffic safety and special enforcement projects. These include ongoing road patrol efforts, aerial traffic services, special patrols to apprehend persons driving under the influence of drugs or alcohol, a comprehensive commercial vehicle enforcement program, an award winning motorcyclist safety program, and a leadership role in state and national safety belt compliance program.

Business, Transportation and Housing

One of our biggest goals was to win voter approval of a transportation funding plan that appeared on the June ballot. With the passage of Propositions 108 and 111, we are now moving full speed ahead with hundreds of transportation projects statewide.

Governor George Deukmejian
August 1990

Business

California's growing economy and unsurpassed quality of life are in large part due to the unsurpassed spirit of entrepreneurship evident throughout California. This spirit is especially strong among our state's business community. This Administration has played a key role in helping to develop a business climate where the creativity of our entrepreneurs could flourish.

The 1990–91 Budget contains $137 million and nearly 1,900 personnel years for the regulation of the financial services industry. This represents an increase above the 1982–83 funding level of over 260 percent ($52 million) and an increase in personnel years of over 147 percent (1,290). The state's regulatory activities are designed to foster a sound financial and business climate and protect the public from economic loss and illegal or unethical business practices by real estate brokers, banks, savings and loans, insurance carriers and agents, and corporate firms.

Reflective of this commitment to consumer protection, the White Collar Crime Task Force of California was formed in the 1984–85 fiscal year. The Task Force consists of representatives of five state departments—Banking, Savings and Loan, Insurance, Corporations, and Real Estate. Suspected crimes involving $100,000 and affecting two or more departments are placed on a Task Force tracking list. Recently, 64 cases were being followed by the Task Force, including 10 cases that resulted in criminal convictions, 15 cases that resulted in civil actions, and 35 cases that resulted in administrative actions.

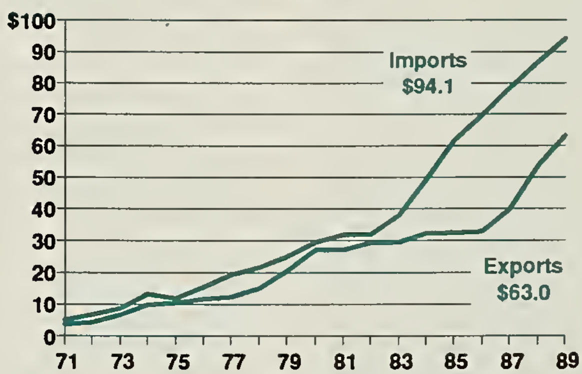
Department of Commerce

The Department of Commerce plays a strong supportive role in helping to attract new business and industry to California and assist and encourage expansion of businesses already located within the state. Since 1982–83, the Department's funding has increased by over 225 percent, and is budgeted at nearly $37 million in 1990–91. The Department has worked to forge a new climate of cooperation and commitment in California. Government is in partnership with industry to expand business

Figure 7-A

Foreign Trade Activity in California

(Dollars in Billions)



operations, encourage investment and accommodate new enterprises to create a diverse mix of new jobs and to make California firms competitive in the international market. In concert with efforts of the World Trade Commission, the Department has been instrumental in expanding trade with foreign countries, with particular emphasis on the fast growing nations that constitute the Pacific Rim. (see Figure 7-A)

Competitive Technology. California companies compete in global markets with companies whose governments subsidize technological development. To enhance California's competitive position, legislation was enacted in 1988 creating the Office of Competitive Technology to identify and fund projects that lead to private sector commercialization of research discoveries. The Competitive Technology Program has increased the state's role in stimulating rapid application of California research to business and industry, ensuring that our business leadership is in a position to transfer ideas into production faster and better than the competition.

During the first year of the program, 28 projects were initiated totaling \$10.8 million—\$6 million state funds and \$4.8 million private matching funds. Projects that have been funded involve small and large California companies and address various areas of public interest, including improvements in computer technology, methods for improving the environment, applications for new high temperature superconductors, and new processes for medical treatment and diagnosis.

The 1990–91 Budget contains \$7.1 million for Competitive Technology, including \$6.6 million for new projects.

Tourism. California is the most popular destination state for travel by U.S. residents. Travel and tourism in California is a \$37 billion a year industry (\$11 billion, or 42 percent, larger than it was in 1983), generating \$1.2 billion in state tax revenues and \$650 million in local tax revenues. The number of jobs provided for Californians by this industry has increased from 460,700 in 1983 to 750,000 in 1989, an increase of 63 percent. The Tourism program is an integral part of the overall plan to give California the competitive edge in attracting job-producing business development. The Department's mission in tourism is to increase travel revenue and to create tourism-related jobs as a means of reducing unemployment.

In recognition of the special needs of rural areas, the Rural Tourism Marketing Grant Program was initiated in 1986 to help rural regions market tourist destinations throughout their areas. Since then, annual grants have allowed representatives of regional organizations to promote tourism in rural areas at trade shows and other tourism-related events.

The 1990–91 Budget contains \$8.2 million for the Department's tourism activities, \$7.6 million more than when the Governor assumed office.

California State World Trade Commission

As one of the United States' leading trading states, California accounts for about 12 percent of all U.S. exports, providing billions of dollars in revenues and creating thousands of employment opportunities for the state. Last year alone, California ports handled more than \$157 billion worth of goods from around the world. The California State World Trade Commission, established in 1983 by legislation signed by Governor Deukmejian, is California's leading representative in the international economy and is one of the state's agencies credited with California's continued success in international trade markets. Through its programs, the Commission works with California's businesses to open and expand into foreign markets and enhance California's worldwide competitiveness.

Export Finance. Since its inception in 1984, the California Export Finance Program is credited with supporting over \$250 million in foreign sales. This has been achieved through a steady growth of state funding available for loan guarantees for qualified small- and medium-sized businesses. Most recently, a \$1 million augmentation has been provided bringing the amount available for loan guarantees to \$6 million for 1990–91, and is anticipated to support an additional \$20 million annually in export sales for California.

Through the Commission's export development campaign, foreign consumers have been introduced to products produced by hundreds of California businesses. For 1990–91, the Commission will lead more than 250 companies to 24 trade shows in 12 countries around the world. This campaign has already generated \$150 million in exports.

Foreign Trade Offices. Under the Deukmejian Administration, California established its first overseas trade and investment offices in 20 years. Five offices augment the international business development activities of the Department of Commerce and the World Trade Commission and cover the globe with locations in Tokyo, London, Mexico City, Frankfurt and Hong Kong. Part of the Governors office, the trade and investment offices have a budget of nearly \$2.0 million for 1990–91.

Transportation

The California Department of Transportation is recognized as one of the outstanding transportation organizations in the world. The Department constructs, operates and maintains a comprehensive transportation system of more than 15,200 miles of highways and freeways, provides rail passenger services under contract with AMTRAK and Southern Pacific, and provides technical assistance and development loans to the more than 200 public airports in California.

The 1990–91 Budget for Caltrans includes total expenditures of \$4.7 billion from federal funds, reimbursements and various state funds, which represent an increase of over 161 percent more than the \$1.8 bil-

lion expended in 1982–83. Of this amount, $2.1 billion will be spent on support of Caltrans and local assistance programs, and $2.6 billion will be spent on highway and mass transit construction projects. The Budget provides 18,148 personnel years for Caltrans to plan future highway construction projects, maintain the existing highway system, and work with local agencies to plan and implement local transportation projects.

Construction Highlights. When this Administration took office in January 1983 California had no plans for new highway projects and was saddled with a five-year backlog in maintenance and repairs. In the ensuing eight years the backlog has been eliminated and new projects have been started at a record pace. The result is the construction or rehabilitation of over 1,831 lane miles of state roads and highways, including the addition of 640 miles of new roads.

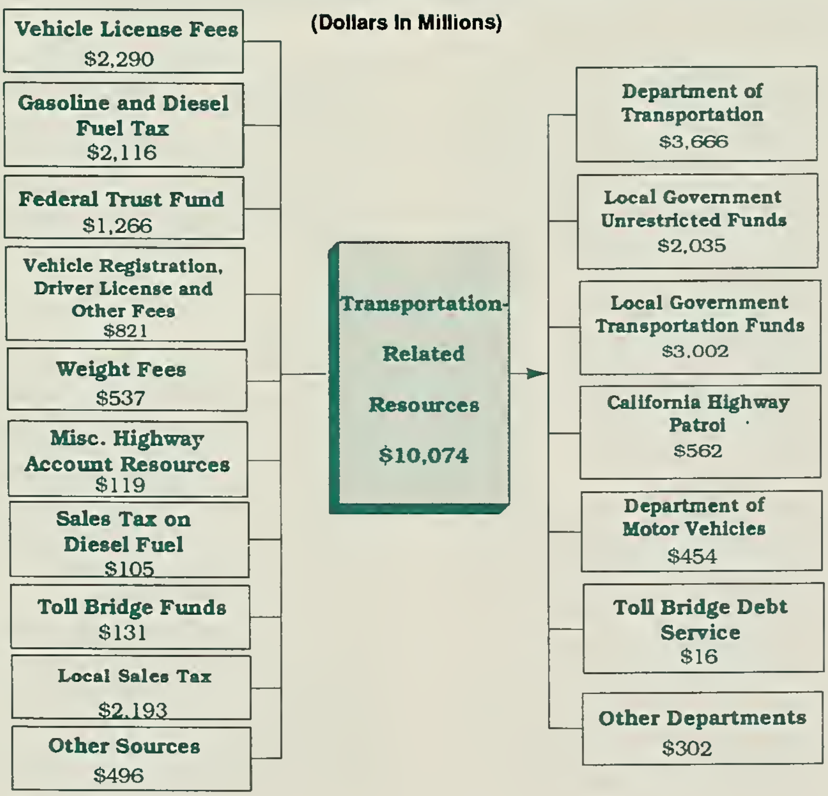
Among the success stories that this Administration is responsible for are the projects listed below.

- In Humboldt County, the Redwood Bypass, a 12 mile freeway, was built to protect Redwood National Park from traffic congestion.
- In Stockton, the Crosstown Freeway.
- In Placer County, the Roseville Bypass.
- In the San Francisco Bay Area, the John T. Knox Freeway, begun in 1985, connects Interstate 80 and the Richmond-San Rafael Bridge.
- In Southern California, the Santa Barbara Crosstown Freeway.
- To ease freeway congestion, new commuter lanes were opened on Route 55 in Orange County and Route 91 in Los Angeles, and the San Diego Freeway has been restriped to provide additional lanes between the Los Angeles Airport and the Santa Monica Freeway.
- In San Bernardino County, the Norco Freeway.
- In the high desert of Inyo County, Route 395 has been widened to four lanes between Bishop and Big Pine to improve access to ski areas.
- A two-stage major storm damage reconstruction of Highway 70 through the Feather River Canyon in Butte and Plumas Counties which was finished in July 1987.
- An $18 million widening of the Interstate 80 Causeway in Yolo County was completed six months ahead of schedule in August, 1986.
- A $34 million widening of Interstate 80 through the City of Auburn which, after complex design work was completed to overcome serious challenges posed by both mountainous terrain and impinging development.
- In Los Angeles, an $11.2 million project to modify and widen the interchange of the Santa Ana and Long Beach freeways was completed in 1987. The project improved freeway access and traffic flow into downtown Los Angeles for commuters.
- A $35 million phase of the Highway 580/238 Interchange in Alameda County. To avoid impacting traffic in the area, Caltrans took special steps to construct the new facility without requiring closure of any of the existing highways.
- A $36 million interchange between Highways 101 and 380 was formally dedicated and opened in October, 1987. The project reduced congestion on the Bay-

Figure 7-B

Sources and Uses of Transportation-Related Resources 1990-91 Fiscal Year

(Dollars In Millions)



shore Freeway and improved access to San Francisco International Airport.

- In San Diego, an eight-mile reversible high-occupancy vehicle (HOV) lane project on Route 15 was completed in the summer of 1988. During morning commute hours, both HOV lanes carry traffic southbound into the city. During the afternoon commute, the lanes carry traffic northward.
- Two projects for $23 million to widen the heavily traveled Interstate 680 to six lanes from State Route 238 in Fremont to the Interstate 580/680 Interchange near Pleasanton.
- Three projects totaling $45 million for major reconstruction of State Route 101 in Los Angeles.
- $168.7 million was awarded to widen and add High-Occupancy Vehicle Lanes (HOV) and Light Rail facilities on the Los Angeles Harbor Freeway, Interstate 110.
- $29 million was awarded to construct Interstate 215 and the State Route 30 Interchange in San Bernardino County.
- $22 million was provided for reconstruction of State Route 55 from Santa Ana to Tustin and for the Interstate 5/State Route 55 interchange in Southern California in 1988–89. In addition, $45 million of freeway widening and construction projects on State Route 55 were initiated in Orange County.
- Interstate 405 in Orange County—$59 million in freeway widening and sound walls from Interstate 5 in Irvine to the Los Angeles County line in Seal Beach.
- Two projects totaling $70 million for freeway construction on Interstate 5 and State Route 54 in Chula Vista and National City.
- A $48 million project on Interstate 8 began in La Mesa and El Cajon to construct an interchange and widen the freeway.
- In northern Shasta County $40 million was awarded to convert a portion of Interstate 5 to full freeway standards.
- Century Freeway in Los Angeles—While this project is expected to be completed by 1993, this project is the most expensive single highway project in California's history. To date, $1.1 billion of construction projects have been let and $300–500 million of right-of-way purchases have been made during the tenure of this Administration.

Traffic Congestion Relief. The Transportation Congestion Relief and Spending Limitation Act of 1990, which was signed by the Governor in 1989 and ratified by the voters in June 1990, will provide an additional $18.5 billion for new highway and mass transit construction during the next 10 years. This five-bill package, which was linked to the passage of Propositions 108 and 111, included a long-term transportation plan, changes to speed up project delivery and reduce project development costs, and avenues to increase private sector participation in the financing, design, construction and operation of new transportation facilities. These changes are being funded by the gas tax increase, the increase in truck weight fees, and the general obligation bonds for rail projects that were approved by the voters. The new funds will be used for the following activities:

- $3.5 billion to fund the remaining projects in the 1988 State Transportation Improvement Program
- $3 billion for flexible congestion relief
- $3 billion for city and county roads
- $2 billion to match local funds raised by special taxes for local transportation projects
- $1 billion for rehabilitation of the state highway system
- $1.25 billion for the interregional road (i.e., rural highway) system
- $150 million for soundwalls
- $1 billion for traffic management systems such as ramp meters, computerized traffic signals and traffic operations centers
- $500 million for the Transit Capital Improvement Program
- $100 million for environmental enhancement such as highway landscaping, roadside rests and environmental mitigation
- $3 billion for intercity, commuter, and urban rail projects

Another $1.9 billion of bond funds for mass transportation were approved by the voters with the passage of Proposition 116.

When added to the $22.1 billion the existing tax structure would have produced over the next ten years, the total (not including federal funds) becomes $42.5 billion which will be dedicated to improving our transportation systems.

Alternative Transportation. The Administration has launched a major initiative to promote alternative transportation approaches to help relieve congestion, such as car and van-pooling, flexible work hours and truck deliveries during off-peak hours.

The state is setting an example by implementing a variety of these approaches for state employees.

The Administration is also working with the private sector to encourage more private sector incentives for alternative approaches.

Housing

Housing has been a priority concern of this Administration since the Governor's first day in office. Although the state's housing needs are addressed primarily by the private sector, the 1990–91 Budget provides a substantial amount of funding to address the housing needs of low- and moderate-income families.

Two departments have the responsibility for this activity. They are the Department of Housing and Community Development, which offers a variety of programs and services designed to help provide safe and

affordable housing for all Californians and to promote economic development of small communities; and the California Housing Finance Agency, which offers low-interest loans for low- and moderate-income home buyers. During the eight years of this Administration, the Department of Housing and Community Development's budget has increased to $110.6 million, more than a 61.7 percent increase, excluding bonds and $40 million for disaster relief.

From 1982–83 to 1989–90, the California Housing Finance Agency made loans of more than $2.2 billion and was responsible for more than 32,000 housing units being made available to low- and moderate-income households. At least $600 million and another 7,500 housing units should be made available for this purpose during 1990–91. The Administration has also established many new housing programs, including expanding emergency shelters, helping senior citizens find housing and providing assistance to lower income renters.

State and Local Government Partnership

Some measure progress by the growth of government programs, but my chief mission as Governor has been to help create growing opportunities for people.

Governor George Deukmejian
September 1990

As a result of the passage of Proposition 13 and various economic adjustments in the late 1970s and early 1980s, the state's participation in local government financing increased. Nevertheless, local government continues to be an essential service provider to the public.

Recognizing the increasing concentration of fiscal power in Sacramento, the Governor, upon taking office eight years ago, made a commitment to restore more certainty and common sense to state and local government fiscal relationships. Toward that end, the Administration created a New Partnership with local government to endeavor to provide the resources needed for local services while allowing local discretion in the allocation of those resources.

The development of the 1990–91 Budget required the difficult task of tailoring expenditures to limited resource availability. The task was made even more onerous by the strictures of Proposition 98. Difficult funding reductions were necessary to insure that the state would live within the means provided by its taxpayers. Many of these reductions involved programs administered by counties.

At the same time, however, the Administration sought to assist counties financially and counterbalance the program funding limitations. This was accomplished by authorizing counties to use several new mechanisms to increase their locally derived revenue.

One such measure related to the 1990 Budget Act authorized counties to charge fees to other jurisdictions for booking their arrestees and for administering the collection and allocation of property taxes. This legislation further increased county revenue-generating capacity through the authorization to charge business license and utility user fees. These new revenue options should enable counties to generate as much as $500 million per year in additional revenue.

Also as part of the solution to end the 1990–91 budget impasse, the Legislature concurred in the Administration's proposal to make many mandated programs optional. The nineteen programs selected to be optional resulted in savings to the state of $31 million and reduced local governments burden of administering mandated programs.

On balance, the Administration's actions on the 1990–91 Budget maintained its commitment to a New Partnership with local government.

Accomplishments

There have been a number of actions in previous years, as well, which have done much to ensure a workable partnership between the state and local government. These include the following:

- Implementation on January 1, 1989, of the Trial Court Funding Program, culminating nearly four years of negotiation and a series of statutes which provided the framework for the program. For 1990–91, the budget provides over $398 million for this program.
- Repeal of previous law enacted in 1979, which provided an automatic reduction in local government subventions if state General Fund revenues did not increase at a specified rate. The elimination of this provision removed a significant funding uncertainty for local jurisdictions.
- Guarantee of vehicle license fee revenues for local government—A constitutional amendment was proposed in 1984 and passed in 1986 which guaranteed that revenue from vehicle license fees would be a local revenue.
- Re-establishment of the authorization for local general obligation bonds—A constitutional amendment was proposed in 1984 and passed in June 1986 to reinstate local government's ability to use the property tax to guarantee general obligation bonds with a two-thirds vote of the electorate.

- During this Administration, local government has been given new authority to increase sales tax revenue upon approval by the local electorate. These increases can be in quarter-cent increments as long as the total state and local sales tax rate after January 1, 1991 does not exceed 7 cents. Consistent with the requirements of Proposition 13, the imposition of sales taxes for special purposes requires approval by two-thirds of the voters while the imposition of sales taxes for general purposes requires approval by a majority of the voters. The definition of special and general purpose taxes has been subject to interpretation by the courts. Proposition 62, approved in 1986, is the framework within which general and special tax increase statutes must be drawn. Proposition 136 on the November ballot further deals with these issues.
- A 1987 law provided one-time grants to counties totaling $110 million, and also created an ongoing program to stabilize county revenues. For the first time, the state is compensating local governments for increases in the amounts needed to meet state requirements for matching funds, which over a period of time can erode county discretionary revenues. This program, which is limited to amounts appropriated for this purpose, is viewed as especially significant for smaller counties, and $15 million is appropriated for its continuation in 1990–91.
- Legislation signed in 1986 created, as part of the Administration's Rural Renaissance Program, the Rural Economic Development Promotion Program and appropriated approximately $8 million to provide grants to eligible rural counties for promotion of economic development. Additional subsequent appropriations have brought the total to date to $32 million.
- A 1988 bill extended the sunset date of the program which assists counties with their costs of homicide trials.
- In 1984, the Governor signed legislation creating the Commission on State Mandates to insure that programs mandated by the state would include sufficient funds to carry out required activities. Over $200 million annually is appropriated to pay mandate claims.

Trial Court Funding Program

The Trial Court Funding Program is a major state initiative to assist local government while, at the same time, bolstering the administration of justice. Historically, it has been a difficult program to implement, but is now funded in anticipation of continued participation by all 58 of California's counties.

In 1985, the Governor signed legislation which would, subject to funding being provided in subsequent legislation, require the state to assume the cost of the trial courts.

The Administration, in 1986, introduced legislation which provided for trial court funding, combined with a series of reform measures designed to improve court efficiency, assure fairness and reduce unnecessary court delays. Although this legislation was not acted on by the Legislature, the following significant legislation of 1986 was enacted implementing some of the reforms which were originally proposed by the Administration:

- Required the Judicial Council to develop Standards of Timely Disposition as guidelines for the Superior Courts and established pilot projects designed to achieve those standards.
- Provided for significant reforms of the civil discovery process.
- Authorized a demonstration project to assess the costs, benefits and acceptability of utilizing audio and video recording in lieu of the record prepared by a court reporter in certain civil proceedings.
- Re-established a pilot project authorizing the use of eight-person juries for civil cases in the Los Angeles Municipal Courts.

In September, 1988, the Governor signed SB 612 into law. That measure enacted the Brown-Presley Trial Court Funding Act and completed the three year effort to implement this program.

County Revenue Stabilization Program

The Administration's Stabilization Program was first proposed in the 1986–87 Governor's Budget. Local officials had expressed concerns that their revenue base was being eroded because they were required by state law to provide increased amounts as a match to certain state programs. Since they believed the amount of the match is essentially outside of their control, they saw this as an unfair reduction in already limited general purpose revenues.

A 1987 law addressed this problem. The fraction of each county's general purpose revenue needed to meet specified requirements for matching funds is compared to the fraction of general purpose revenue needed for those same match requirements in the 1981–82 fiscal year. If the fraction of general purpose revenue needed to meet match requirements has increased, the state is authorized to provide funding, up to an amount sufficient to reduce this fraction to the 1981–82 level, but the program is limited to the amounts appropriated annually for this purpose. A funding level of $15 million for Stabilization is provided in 1990–91.

Rural County Review

This Administration has actively pursued programs to improve the economic conditions of rural counties, such as the Rural Renaissance Program and Rural Economic Development Promotion Program.

In addition, legislation creating the Stabilization Program was crafted to maximize assistance to rural counties whose revenue growth has not kept pace with traditional county program requirements. However, as the gap in some rural counties between resources and program requirements increases, a continuing review of rural county fiscal options is warranted. Consistent with prior efforts, the Administration is working with the Legislature and rural county representatives to continue our partnership in addressing their fiscal problems.

Local Revenue

One measure used in assessing the fiscal condition of cities and counties is the change in general purpose revenues. General purpose revenues include only those revenues which may be expended for any governmental purpose, much like the state's General Fund.

In 1989–90, the growth in general purpose revenue on a statewide basis was 7.2 percent for cities and 10.2 percent for counties. In the prior fiscal year, the growth rate was 7.2 percent for cities and 7.5 percent for counties. For 1990–91, cities are expected to realize a growth rate of 6.9 percent while counties will experience an 8 percent growth in general purpose revenue. Vehicle license fee revenues to both the individual cities and counties will continue to be a major factor driving the increase in revenues. In addition, legislation enacted as part of this year's budget compromise authorized counties to recover costs for booking criminals arrested in other jurisdictions, and to recover proportionate costs from other jurisdictions for collecting and allocating property taxes. This will increase county revenues by approximately $200 to $300 million in 1990–91 and $400 to $600 million in subsequent years. Further, this legislation authorizes counties to establish business and utility users' taxes, similar to the authority already provided to cities. It is estimated that this new authority could result in over $300 million of new revenues to counties each year. (It should be noted that there is substantial variation among cities and counties with respect to actual revenue growth.)

State-Mandated Local Programs

At the November, 1979 General Election, the voters approved Proposition 4 which, among other things, added a provision to the state Constitution which requires the state to reimburse units of local government for any costs which the state mandates on them. A similar statutory requirement had existed since 1972, along with an appeals procedure involving the Board of Control. Because that requirement was generally sidestepped and because the appeals process was unsatisfactory, this Administration supported legislation which strengthened this requirement and created a quasi-judicial appeals procedure involving a newly created Commission on State Mandates. That body now provides for a more expeditious and equitable resolution of mandate issues.

In another effort to expedite the payment of state-mandated local costs and to reduce the state and local costs associated with the claiming process, this Administration successfully sponsored legislation in 1985 to provide a block grant mechanism for reimbursing certain stable longstanding mandates. From 1982–83 to 1990–91, the total amount subvened to local government for reimbursement of state mandates has increased from $117.7 million to $203.8 million annually, an increase of 73 percent. In addition to the latter amount, we have committed to reimbursing another $107.8 million for prior years' local costs over the next three years.

As part of the solution to the budget impasse of 1990–91, the Legislature concurred in the Administration's proposal to make many mandated programs optional by not funding reimbursements for such mandates. This was done not only to provide the state with some fiscal relief, but also to provide local governments with some relief from the increasing number of mandated programs they are required to carry out. This action reduced state expenditures by $31 million for 1990–91.

Redevelopment Agencies

There are approximately 350 redevelopment agencies (RDAs) in the state. These agencies have a combined revenue from all sources in excess of $1.5 billion. RDAs have several sources of revenue, one of which is the Special Supplemental Subvention provided by the state. The annual Supplemental Subvention for RDAs is about $42 million, which is only about 2 percent of total RDA revenue.

Legislation enacted in conjunction with the 1990–91 Budget reduced the state's Supplemental Subvention to RDAs from $42 million to $12.7 million for 1990–91 only. This will result in a savings to the state of approximately $29.3 million, or less than 2 percent of RDA revenues. Since RDAs have other substantial sources of revenue which are continuing to expand, this temporary reduction should have a minimal effect on RDA operations.

General Government

I believe we have put the proper policies into place to meet the challenges of growth and competition—particularly our approach of coupling fiscally responsible government with sound investments in schools, trade and transportation.

Governor George Deukmejian
June 1990

While the areas of Education, Health and Welfare, Business and Transportation, Youth and Adult Corrections, and Local Government assistance consume 86 percent of the total budget, there are many departments with relatively small budgets which nonetheless have a significant impact on the lives of California citizens. Many of these departments fall under the purview of one of three agencies: State and Consumer Services; Environmental Affairs; or Resources. Other departments such as the Departments of Food and Agriculture and Industrial Relations stand alone in the structure of state government.

State and Consumer Services Agency

The State of California provides numerous services to the public and private sectors of the state through various departments, boards, commissions, offices, and programs. Many of these entities are organizationally located within the State and Consumer Services Agency.

Numerous departments, boards, commissions, and programs within the Agency serve as licensing and regulatory agencies for a myriad of professions, businesses, manufacturers and services providers, including activities which regulate the California Vehicle Smog Inspection Program, license companies which refill fire extinguishers, license and enforce virtually all persons who practice a medical profession, license furniture manufacturers, and regulate underground pipeline companies which transport hazardous liquid petroleum and chemical products.

In addition to taxing, licensing and regulatory activities, the various sectors provide services to individuals through administering the state teachers and public employees' retirement systems, the 9-1-1 Emergency Telephone Program, personnel practices and collective bargaining for state employees, and payments to victims of crimes program. Support is also provided to local governments through assistance in purchasing materials, goods, and services, analysis and development of statewide telecommunication systems, and training of local fire service personnel.

The 1990–91 Budget provides combined expenditures of $1.1 billion for support operations and local assistance for programs within the Agency. In addition to this amount, $1.3 billion in expenditures are identified for acquiring property, taxes and insurance costs, and debt service for the farm and home loan program for California veterans.

Environmental Affairs Agency

The Environmental Affairs Agency has made significant progress over the last eight years in meeting the Administration's goal to maintain the quality of the environment to accommodate California's growing population. In fact, in the South Coast Air Basin, ozone levels are half what they were twelve years ago.

Many state agencies are involved in the overall effort to protect the environment. However, the organizations most directly involved are the newly renamed and reorganized California Integrated Waste Management Board, the Air Resources Board, the State Water Resources Control Board, and the Toxic Substances Control Program in the Department of Health Services.

California Integrated Waste Management Board. The Governor recognizes that with an expanding population and economy we must have an effective and efficient system for solid waste management. The Waste Board has been involved in studying waste management practices, examining problems related to existing practices, identifying alternatives and planning for future needs. In addition, the Board is initiating efforts involving source reduction, recycling and composting. These new techniques are intended to reduce the amount of waste requiring disposal as well as to improve the handling of wastes to be disposed.

The 1990–91 Budget provides funding for implementation of the New Integrated Waste Management Program which was authorized by legislation signed by the Governor in 1989.

Additional legislation also continued the authorization for the Solid Waste Disposal Site Cleanup and Mainte-

nance program through which the Board protects the public by oversight and improvement of existing solid waste landfills. This program was previously authorized through legislation signed by the Governor in 1987 and will be fully operational for the first time in 1990–91. The program combines increased oversight with grants and loans to prevent unsafe or inefficient practices by landfill operators.

Also, the California Tire Recycling Act, authorized by legislation enacted in 1989, will be implemented for the first time through the 1990 Budget Act. This program imposes a 25 cent surcharge on tire purchases to fund grants and loans which facilitate new technologies for using worn out tires instead of disposing of them in landfills.

Air Resources Board (ARB). The Air Resources Board has primary responsibility for protecting air quality in California by establishing ambient air quality standards for specific pollutants, controlling motor vehicle emissions statewide, and coordinating with local programs to control stationary sources. These effects require monitoring of ambient air pollution throughout the state and ongoing research in various air pollution areas, such as indoor air pollution, toxic air contaminants and acid deposition.

The 1990 Budget Act includes appropriations to expand the work of the Air Pollution Control Program of the ARB. In 1990–91, the ARB will expand its efforts to implement the California Clean Air Act, increase efforts to determine the effects of using alternative motor vehicle fuels on air quality, and, in cooperation with the Bureau of Automotive Repair, expand vehicle emission testing under the Smog Check program.

The ARB will also participate with the Department of Health Services in a new program which will assess the health risks associated with stationary sources of pollution and to identify areas of the state where such pollution is a particular problem.

State Water Resources Control Board. The purpose of The State Water Resources Control Board and the nine regional boards is to preserve and enhance the quality of the state's water resources and to assure their proper allocation and effective utilization.

Compared to the 1982–83 program level, which included 677 personnel years and $95.6 million in expenditures, the 1990–91 Budget provides 1,169 personnel years and expenditures of $377.3 million.

Along with the continuation of important water quality and water rights programs, the 1990 Budget Act provides appropriations to the Board for several important new programs.

The Governor signed several bills into law during the 1989 Legislative Session which are being implemented through the 1990 Budget Act. These bills authorize the Bay Protection Toxic Clean-up program through which pollution problems of the state's bays and estuaries will be identified and potential solutions may be developed; enact the Above Ground Petroleum Storage Act and authorized a program to inspect above ground tanks; and create the Underground Storage Tank Cleanup Fund, the proceeds of which are to finance the costs of remediating the effects of leaking underground storage tanks.

In addition, the 1990 Budget Act provides funds for expanded efforts to mitigate the effects of above- and under-ground storage tanks on groundwater, clean-up of the Santa Monica Bay, preservation of water quality in Mono Lake and the San Francisco-San Joaquin Bay-Delta, and the identification and reduction on non-point source pollution.

Toxic Substances Control Program

Californians annually produce about 10 million tons of toxic waste. Safe disposal of these wastes is one of the greatest challenges facing our society. Safe disposal of toxic waste has also been a high priority of this Administration.

To identify promising new methods of reducing and disposing of toxics and ensure effective coordination of State programs, the Governor convened a bipartisan Task Force on Toxics, Waste and Technology. This Administration has increased the number of hazardous waste facility permits issued, facilities inspected, sites cleaned and penalties enforced. Over 90 separate pieces of legislation have been signed and implemented to strengthen our commitment to the cleanup of toxic wastes.

One major piece of legislation approved by the voters was the Safe Drinking Water and Toxic Enforcement Act of 1986, known as Proposition 65. The Administration has fully implemented Proposition 65 with a listing of 451 chemicals now subject to its provisions and the required public warnings in place.

Primary responsibility for the state's toxics program rests with the Department of Health Services. However, several other departments also are involved in various aspects of the toxics program whenever their own programs involve toxics issues. These include: Department of Justice; Department of Food and Agriculture; Department of Transportation; Water Resources Control Board; and Department of General Services. In total, the 1990–91 budget contains expenditures of $310 million for various toxics programs statewide. This represents a 464 percent increase over the 1982–83 level.

Resources Agency

California enjoys a world-wide reputation for the rich diversity of its natural resources and the quality of its environment. This Administration has set a high priority on careful management and conservation of these highly valued resources. In the eight years of the Deukmejian Administration, funding for environmental quality and natural resources has quadrupled, from $770 million to $3.1 billion.

Tahoe Conservancy

One of California's most important natural resources is Lake Tahoe, famed for depth, purity and clarity of its waters. Under the auspices of the Tahoe Conservancy, more than $54 million has been appropriated to purchase over 4,900 acres of environmentally sensitive land around the Lake. The Conservancy has expended over $19 million for 52 soil erosion control projects designed to repair damage caused by past development and to prevent further deterioration of Lake Tahoe's clarity. These projects have resulted in the restoration of 28 acres of disturbed stream environment zones.

Department of Water Resources

Significant efforts have been made to protect the water resources of the state by having a planned and coordinated water storage and delivery plan as well as continuing progress in the clean up of our lakes, rivers and coastal areas.

Several key projects have been completed under the guidance of the Department of Water Resources. Over $31 million has been spent on the completion of the Suisun Marsh Salinity Control Gates; a key factor in the mitigation of the adverse effects of upstream diversions of the environmentally sensitive marshland.

Over $21 million has been expended on the San Joaquin Valley agricultural drainage program to dispose of salty drainage water from irrigation. An appropriate disposal plan is essential to maintaining high crop yields in the valley. A plan to preserve environmentally sensitive Mono Lake has been achieved through an historic compromise agreement. Grants will be made to the City of Los Angeles for projects such as waste water reclamation, water conservation and ground water recharge so that Mono Lake water will not be diverted, thus protecting the lake's wildlife and environment. In addition, the Department of Water Resources has spent over $100 million in bond funds for safe drinking water projects.

The Department's budget for 1990–91 is $318 million, an increase of 89 percent since 1982–83.

Conservation Corps

The California Conservation Corps (CCC) was established in 1976 to conserve and enhance the state's natural resources and environment and provide meaningful on-the-job training and education opportunities for young people between the ages of 18 and 23. In 1984 the CCC was expanded to develop community conservation corps programs in neighborhoods with large concentrations of minority youth and high youth unemployment. At present, there are nine such local corps. During the past eight years, almost 33,000 young men and women have provided over 22 million hours of public service conservation work and emergency assistance. As an example, over 5.4 million trees have been planted, 2,877 trail miles have been constructed or rebuilt and almost 500 miles of North Coast streams have been reopened and rehabilitated to improve the spawning habitat for salmon and steelhead populations.

Department of Parks and Recreation

During the past eight years, it has been a priority to provide high quality recreational experiences to those who live in and visit California while protecting important natural and cultural resources. The state park system has grown from 1.1 million acres to 1.4 million acres. While the number of state park units has grown from 266 to 275, attendance has increased from 74 million to 78 million visitors. More than 630 minor projects have been completed to make the state park system accessible to persons with disabilities and to protect and maintain important elements of California's unique landscapes and wildlife communities, which ensures their availability for the use and enjoyment of future generations. In addition, more than 268 major Capital Outlay projects have been completed to develop, rehabilitate or expand park facilities throughout the state at a cost of $214 million.

Other Governmental Agencies

Department of Food and Agriculture

California agriculture plays a vital role in the economy of our state and nation. It has received world-wide recognition for its quality, variety and abundance. It truly is one of the most diversified in the world with over 250 commercial crop and livestock commodities. Our 31 million acres of agricultural land account for only three percent of the country's farmland, but produce over 50 percent of the nation's fruits, nuts, vegetables, beef and rice. In addition, as the nation's number one farm state, California agriculture accounts directly or indirectly for one out of every five jobs in the state, and provides more than $16.6 billion annually in gross farm receipts.

The 1990–91 Budget provides a total expenditure of $208 million and 2,000 personnel years for the California Department of Food and Agriculture. The Budget represents an increase of $109 million (111 percent) in expenditures over 1982–83.

Food Safety Program. Over the past eight years, the Pesticide Residue Monitoring Program has expanded significantly. In 1982, approximately 7,000 produce samples were tested. This number has more than doubled and the scope of the testing has also expanded. The analysis of produce now includes testing for pesticides in the field to the processing plant. The most recent developments in this program include the testing of produce for specific pesticides of concern, the sampling and analysis of crops prior to harvest, the analysis of produce destined for further process-

ing, and the implementation of a 100 percent pesticide use reporting program.

Agricultural Export Program. Four years ago, agricultural exports from California were on a downhill slide, taking the farm economy with them. The Administration's response was to create a Matching Funds Program. Since its creation in 1985, almost $18 million in grants have been made to California agricultural exporters to assist them in market development and trade activities overseas. The program has also benefitted from a new electronic leads system and augmented trade development activities. Agricultural exports reached the $4 billion mark in 1988 after a low of $2.8 billion in 1985 making California the leading state in agricultural exports. In 1990–91, the Agricultural Export Program is funded at $4.7 million.

Ground Water Protection Program. In 1985, implementation of the Pesticide Contamination Prevention Act began. Under the Ground Water Protection Program, funded at $1.9 million in 1990–91, the Department has promoted pest control practices that are environmentally sound and effective in order to prevent pesticide contamination of ground water. The Department has cancelled the use of three pesticides, adopted or proposed regulations to modify use of five other pesticides in sensitive areas, identified areas sensitive to pesticide leaching, and trained pest control advisers to provide groundwater protection practices to pesticide users.

California Arts Council

The California Arts Council encourages artistic awareness, participation and expression among the citizens of California. The Council's multi-faceted grants program seeks to further the development of a wide range of individual and group cultural activities in all areas of the state.

The Budget includes a total expenditure of $17 million and 55 personnel years for the California Arts Council. The 1990–91 Budget represents an increase of $6 million (55 percent) in expenditures over 1982–83.

The California Challenge Program was started in the 1988–89 fiscal year to encourage the increased use of private funds to support arts programs and projects through higher matching grants. As budgeted for 1990–91, the program is designed to generate $2.3 million in additional non-state support for the arts.

Department of Industrial Relations

The Department of Industrial Relations 1990–91 budget is $175.6 million and 2,496 personnel years, including $72 million for Workers' Compensation; $48 million for the prevention of industrial injuries and deaths to California workers; $23.3 million for the enforcement of laws relating to wages, hours and conditions of employment; $22.7 million for payment of claims, wages and contingencies; and four other programs which total $9.5 million.

In 1982–83, expenditures were $93.2 million and 2,209 personnel years. The 1990–91 Budget totals reflect an increase of $82.4 million (88.4 percent) in expenditures over 1982–83.

In 1989, working with representatives from local government, labor, business and employers, the Governor and the Legislature reached an historic agreement to reform the state's workers compensation system, increase benefit levels to injured workers and achieve cost savings for employers.

The 1990–91 Budget includes $21.3 million and 214 personnel years in the Division of Workers' Compensation to fund this major program enhancement.

Office of Emergency Services

California has experienced eleven Presidentially declared disasters and more than sixty-two Gubernatorially proclaimed emergencies in the last eight years. These natural disasters, including fires, floods, and earthquakes, caused over $6 billion damage.

The Office of Emergency Services (OES) has grown into an organization which is recognized throughout the nation as a leader in multidisciplinary emergency response. OES plays an especially critical role in assuring public safety and reducing the economic impact of natural disasters.

The 1982–83 budget included $7.5 million and 123 personnel years for state operations at OES. Since that time:

- earthquake preparedness has been upgraded;
- a statewide hazardous material emergency response system has been developed;
- an emergency radio system has been implemented statewide; and
- emergency response equipment has been placed on line.

This year the OES budget will be $28 million and 263 personnel years. An increase of 271 percent and 114 percent respectively over the 1982–83 levels.

Loma Prieta. When the Loma Prieta earthquake struck on October 17, 1989, OES served as the lead agency in the state's response and recovery efforts. The effort was funded by a $3.45 billion package, which was enacted by Congress and signed by President Bush, to meet a variety of needs in repairing the damage; and a $900 million package, which was enacted by the State Legislature and signed by Governor Deukmejian, to match the federal funds as well as meet additional state needs. The principal source of state funds is the temporary increase of quarter-cent in the sales tax.

California Exposition and State Fair

The California Exposition and State Fair provides a showcase for the agricultural, recreational and indus-

trial resources of California for both residents and non-residents.

The 1990–91 Budget provides a total expenditure of $17 million and 244 personnel years for the California Exposition and State Fair. The Budget represents an increase of $7 million (41 percent) in expenditures over 1982–83.

In 1982–83, California Exposition and State Fair was having difficulty maintaining a balanced budget. In 1986–87, the California Exposition and State Fair Enterprise Fund was created making the California Exposition and State Fair a self-supporting operation. Today the California State Fair anticipates ending 1990–91 with a reserve of over $5 million and has made substantial improvements to its fair program and physical plant.

Management of Government

We have been an administration of builders—builders of roads, parks, prisons, schools and other facilities to help our growing population excel in a cleaner, safer environment.

Governor George Deukmejian
March 1990

Increasing the Efficiency of State Government

The Deukmejian Administration took office in January of 1983 with a primary objective to improve the efficiency of state government without increasing its size beyond the necessary levels. The effectiveness of the Administration's efforts is evident by the reduction in the size of state government's workforce compared to the size of California's population and total workforce. From 1982–83 to 1990–91, the state's general population will have increased by approximately 20.1 percent. During this same period of time, state personnel will have increased by only 16.8 percent. This has resulted in a reduction in the number of state personnel per 1,000 general population from 9.2 in 1982–83 to an estimated 8.9 in 1990–91. In addition, the California labor force will have increased by approximately 34 percent from the 1982–83 fiscal year to 1990–91, while the state workforce will have increased by only 16.8 percent over this same period.

At the same time, however, the state is providing more services to more Californians. For example, since 1982–83:

- higher education enrollment has increased by nearly 16 percent;
- correctional caseload has increased by 204 percent;
- motor vehicle registration and license renewal activities have increased by 25 and 16 percent, respectively; and
- California Highway Patrol commercial vehicle inspection and enforcement hours have increased by 57 percent resulting in a corresponding 143 percent increase in the number of detected commercial truck violations.

These and many other workload increases have been accommodated through automation, resource redirection and improved management practices with no adverse effect on the delivery of necessary public services by state government and, in fact, in many instances improved services. In essence, state government is doing more with less.

The 1990–91 budget continues to reflect the Administration's ongoing commitment to provide the residents of this state with all essential services without increasing the size of government beyond necessary levels.

Employee Compensation

The Governor's long standing salary and benefits policy has been to compensate employees in relation to their performance. Encouraging productivity and creativity through the compensation program has been the key to building efficient state government and, as a result, effective delivery of services to the public. Since assuming office, the Governor has increased state employee salaries by approximately 44 percent, including special salary adjustments in certain classifications. The salary and benefit increases have resulted in salaries for state employees which are competitive with salaries for similar employment outside of state service.

In addition, significant improvements to benefits for employees have been adopted. These improvements include:

- enhanced dental and vision care benefits;
- adoption of a two-tier retirement structure providing employees with an optional retirement plan;
- enhanced retirement benefits for peace officers and firefighters and added retirement program security for all employees in full compliance with federal legislation;
- an optional flexible benefits program to allow tailoring of benefits, within a fixed dollar allotment, to meet individual and family needs;
- establishment of child care program services for state employees through the State Employee Child Care Program (the program has assisted in the establishment of approximately 15 child care centers providing services to over 900 children);
- graduated vesting approach to health benefits coverage for annuitants to provide a level of health benefit coverage in retirement that is consistent with the employee's length of service;
- procedures to implement the Governor's Executive Order for a drug free workplace; and

- reduction in sick leave usage through an incentive program to encourage less use; as a result average sick leave use has been reduced from 9.1 to 8.3 days per employee per year.

In total, this Administration's efforts to retain and reward productive employees for their services have been demonstrated by providing competitive salary increases and creative benefit additions and options.

State and Local Facility Needs

Infrastructure. The strength of the state's economy is dependent on the condition of basic facilities, equipment and installations such as roads, water supply systems, waste treatment systems and institutional facilities. Since entering office in 1983, the Governor has placed a high priority on developing and maintaining the local and state infrastructure.

The Deukmejian Administration has been an administration of builders, in particular roads, parks, prisons, schools and other facilities to help California's growing population.

All told, in eight years this Administration has invested over $46 billion to upgrade the state's infrastructure network. For example, in highway construction the state has had a massive effort underway since 1983. Not only has this Administration constructed and rehabilitated more miles of highway then the previous Administration, but we have more than doubled the amount of spending for highway construction, maintenance and congestion relief. In addition to the $46 billion, this Administration has developed plans for new infrastructure totaling nearly $25 billion and the voters have approved over $20 billion in Propositions 108, 111, and 116, for a total of $91 billion. (See Table 10-1.)

State Appropriations Limit

History. Proposition 4, enacted by California voters in November 1979, and later amended by Proposition 98 in November 1988, permanently altered how state and local governmental entities, including special districts and school districts, may appropriate the proceeds of taxes. The basic premise of Proposition 4 was that there must be a limit on how much of the tax dollars received by these entities may be spent. In accordance with Proposition 4 (codified as Article XIII B, California Constitution), any tax receipts above this limit must be returned to the taxpayers, thereby eliminating the chances of government expenditure of any overcollection of taxes.

To implement Proposition 4, all appropriation limits were initially based on the amount of tax dollars appropriated in the 1978–79 "base" year. This dollar amount was recognized as the representative amount of tax dollars required to support the size of government needed to provide essential programs and services to the citizens of California in that year. Acknowledging that the demand on programs and services increases commensurately with increases in population and cost-of-living, Proposition 4 allowed governmental entities to annually increase their limits by these two factors.

Proposition 98 fundamentally changed the way the limit functions for the state by requiring that any excess tax revenues up to a certain amount must be allocated to school districts (K–14). Thus, while a spending limit remains for local governmental entities and as a control for non K–14 expenditures at the state level, the limit's control on expenditures was effectively removed with regard to the K–14 area. It remains necessary for the state to calculate its limit, however, in order to determine the correct levels of appropriations in the non K–14 budget areas.

Spending Limit Reforms. In June 1990, voters approved Proposition 111, the "Traffic Congestion Relief and Spending Limitation Act of 1990". This proposition, strongly supported by the Governor, Legislature, Superintendent of Schools, business community and many others, revised how appropriation limits are calculated.

Instead of using the lesser of either the U.S. Consumer Price Index or California per capita personal income, this Proposition requires the state and school districts to use only the change in California per capita personal income. Local governments have the choice of this factor or an alternate growth factor which would take into consideration the change in the assessed valuation of local commercial construction.

Population factors are also redefined under this Proposition for all entities. The changes to the state include increasing the limit to now include growth in the average daily attendance in grades K–12, which is one of the fastest growing segments of our total population.

Overall, this Proposition made positive changes in limits statewide, allowing limits, including education, to grow more consistently with the growth in our economy. This will provide governments with the ability to meet essential demands due to economic expansion and population growth. At the same time Proposition 111 strengthened the limit by restricting the amount of excess tax revenues which may be allocated to the K–14 area.

State appropriations take two basic forms: Money may be appropriated for direct programmatic purposes, such as education funding or health services; or it may be appropriated for unspecified purposes to various reserve funds, the most important being the Special Fund for Economic Uncertainties in the General Fund.

Because the Limit applies to all governmental entities within California, funds transferred from one unit of government to another are subject to the Limit only once. Appropriations to local government without restrictions on their use are consid-

Table 10-1

Program For Building California

(Dollars in Millions)

STATE CAPITAL OUTLAY PROGRAM	*1983–91*	*Currently Approved**	*TOTAL*
Highways	$11,004	$17,450	$28,454
Water Project	3,621	2,523	6,144
Higher Education	2,649	1,800	4,449
State Hospitals	225	132	357
CDC and CYA Facilities	3,695	3,264	6,959
Underground Storage Tanks and Toxics Cleanup	105	–	105
Parks and Recreation	243	132	375
State Facilities Energy Conservation	228	204	432
Other	424	1,015	1,439
Totals—Capital Outlay	$22,194	$26,520	$48,714
Maintenance of State Facilities	4,847	3,884	8,731
Totals, State Program	$27,041	$30,404	$57,445
STATE LOCAL ASSISTANCE PROGRAM			
Toxics Cleanup	$108	$60	$168
K–12 Construction	5,476	4,000	9,476
K–12 Maintenance	614	195	809
Community Colleges Maintenance	349	524	873
Streets and Roads			
—Local Assistance	2,173	1,178	3,351
—SB 300 (Ch 1600/85)	215	–	215
—Shared Revenues	4,973	5,510	10,483
Mass Transportation	1,431	1,791	3,222
Underground Tank Mandate	23	–	23
Airports	34	12	46
Flood Control	135	80	215
—Ch. 16/86—Local Flood Control	47	–	47
Safe Drinking Water Project	413	224	637
Water Conservation, Capital Costs	136	128	264
Waste Water Treatment	577	225	802
Local Jails	1,334	701	2,035
Local Capital Expenditures	106	–	106
County Hospitals	72	–	72
Senior Citizens Centers	50	–	50
Parks and Recreation	645	68	713
Beach Erosion Control	25	–	25
Rural Renaissance	28	–	28
Totals—Local Assistance	$18,964	$14,696	$33,660
Totals—Program for Building California	$46,005	$45,100	$91,105

*Fiscal years 1991–95, except highway and road programs which are 1991–2000. Highway and road programs include $2 billion in G.O. bonds subject to future vote as authorized by Ch. 108/89.

Table 10-2

State Appropriations Limit

(Dollars in Millions)

	1978–79 Base	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*1988–89*	*1989–90*	*1990–91*
State Appropriations Limit	$12,564	$14,195	$16,237	$18,030	$19,593	$20,369	$21,740	$22,962	$24,311	$25,201	$27,064	$29,318	$32,203
Appropriations Subject to Limit	–	–	–15,535	–16,872	–16,154	–17,737	–20,822	–22,467	–25,449	–24,030	–26,753	–28,062	–30,944
Amount (Over)/Under Limit	–	–	$702	$1,158	$3,439	$2,632	$918	$495	($1,138)	$1,171	$311	$1,256	$1,259

ered tax proceeds for the local entities and not the state, and are subject to the Limit of the local entities.

Appropriations to reserves count against the Limit in the year in which they are made. Expenditures from specific appropriations or reserves made in prior fiscal years do not count since the full amount of the appropriation is counted in the year it is made.

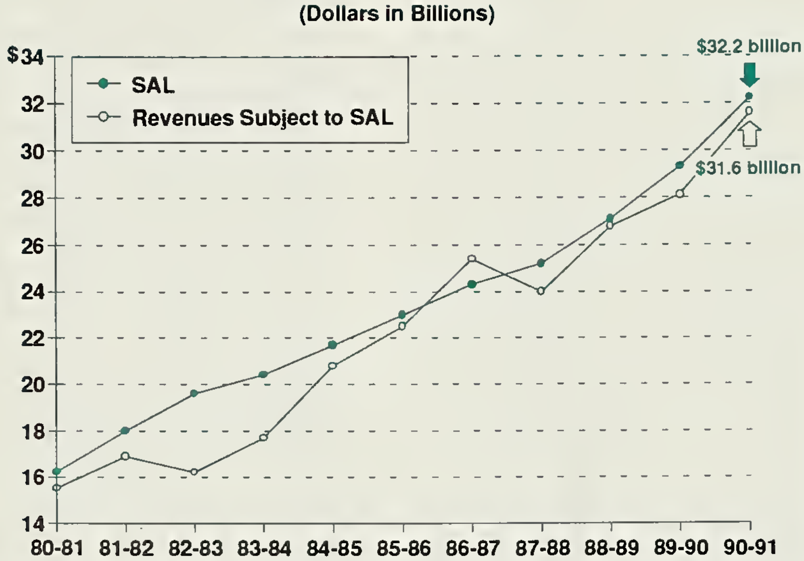
Table 10-2 and Figure 10-A display the history of the State Appropriation Limit. The 1990–91 appropriations are $1.259 billion below the level of the Limit.

Limit Calculation. The Limit is based on tax revenues actually appropriated in 1978–79 and adjusted annually for inflation using the change in the California per capita personal income. Prior to the passage of Proposition 111, it was either the U.S. Consumer Price Index or California Personal Income, whichever was less. The Limit is also adjusted annually for population growth, shifts in financial responsibility between entities of government, and funding source shifts for programs from tax proceeds to fees.

Figure 10-A

Historical State Appropriations Limit
(Limit vs. Revenue)
1980-81 through 1990-91

(Dollars in Billions)



California's Fiscal Future

We must restore flexibility to the budget process, so that each year the Governor and Legislature can assess what the state's income will be, and base their spending plans on that reality, and not on fictional formulas that bear no relationship to revenues.

Governor George Deukmejian
April 1990

Fiscal Responsibility

In the last eight years California has made tremendous progress in improving its fiscal management and restoring its fiscal affairs. The primary achievements of this Administration are:

- Paying off the $1.5 billion deficit facing the state in the 1982–83 fiscal year through a combination of tough budget cuts and innovative legislation to guarantee payment in 1983–84.
- Creating, implementing, and winning public acceptance for the concept that an enterprise as large as California ought to maintain a prudent reserve for emergencies.
- The Governor using his "blue pencil" veto authority 3,836 times, saving the taxpayers $6.8 billion in unnecessary, imprudent or wasteful spending.
- Implementing the Proposition 4 "Gann" spending limit by returning to taxpayers over one billion dollars in windfall tax receipts which, if spent on government programs as many were urging, would have resulted in chaos, given the subsequent history of slower and uneven growth of General Fund Revenues.
- Lowering the tax burden on Californians, with the combined tax load of state and local taxes now ranking 24th in the nation, down from 3rd in 1978.
- Achieving a "AAA" credit rating from the three major rating agencies, making California one of only five states to achieve that distinction.

Program Growth

At the same time, the state's budget has grown from $25.2 billion to $55.7 billion, an increase of 121 percent with substantial funding increases in virtually every government service and program as described in previous sections. To be sure, many of the increases were legally required, a result of federal or judicial mandates, or imposed by virtue of voter approved initiatives, but they were implemented and efficiently budgeted by this Administration.

In recent years, the rapid expansion of our economy, together with the responsible fiscal policies of this Administration, has enabled the state to sustain all of the required increases and the program improvements enacted under this Administration. However, with the growth in revenue tapering off, and the budgetary mandates compounding and growing ever more burdensome, the state budget is being squeezed at both ends.

Budgetary Reform

Governor Deukmejian publicly identified this situation as a serious problem beginning in January of 1989. In the ensuing 18 months the Administration continued to call for budgetary reform which would allow the state to keep spending growth in line with revenue growth, culminating in the issuance of a "white paper" study of the problem in April of 1990.

The budget negotiations of June and July presented the Governor the opportunity to pursue his goal of long-term budget reform that would restore flexibility to the budget process and enable future governors and legislatures to base spending plans on the reality of state revenues rather than on arbitrary formulas, court decisions, federal actions and initiatives. As part of the 1990–91 budget agreement, the Governor signed legislation enacting a California version of the national Gramm-Rudman budget cutting law. Under this legislation, future governors and legislatures will be able to reduce spending growth to avoid future tax increases.

The "Trigger"

California's version of the Gramm-Rudman law, dubbed the "Trigger", would have largely eliminated the causes of the budget delay which produced hardship for many Californians.

The "trigger" works in this manner: If the governor's projected workload budget indicates that expenditures exceed revenues by at least one half of one percent, all General Fund programs *except* those protected by the State Constitution (i.e., K–14,

Debt Service, and the Homeowner's Exemption) would be reduced "across the board" by a maximum of 4 percent. This includes statutory cost-of-living increases as well as various entitlement and discretionary programs.

The "trigger" would become a certainty only after the annual "May Revision" of expenditures and revenues by the Department of Finance and then only if the Department's figures are certified by the independent Commission on State Finance.

If the budgetary problem does not warrant a 4 percent reduction, then a lessor reduction will be taken and the entire mechanism can be suspended by a two-thirds vote bill in the Legislature with a signature by the Governor.

This highlights the most important aspect of the "trigger"—its provisions do not usurp the traditional role of the Governor with respect to the budget process. It simply provides an additional tool for effecting cost reductions on an across the board basis.

The items of General Fund expenditure subject to the "trigger" total approximately $24 billion out of the current total of $42 billion, which would result in budget reductions of up to $1 billion. As the budget grows, the "trigger" amount will also grow.

1991–92 Projection

When the Governor issued his "white paper" he described the problem facing the budget as one in which General Fund expenditures were driven by various forces mentioned earlier in this section to increase by 11 percent while General Fund revenues were growing at a rate of 7 percent. If the current estimates of General Fund expenditures and revenues for 1990–91 hold true, projections utilizing a growth rate of 11 percent for expenditures and 7 percent for revenues, would cause the operation of the "trigger" and produce a balanced General Fund budget of approximately $46 billion for 1991–92. This compares with an expenditure level of $47 billion and revenues of $46 billion without the trigger. Clearly the "trigger" will provide budget decision makers with a powerful tool to use to preserve the state's hard won fiscal respectability.

Additionally, other elements of the 1990–91 budget compromise will be of benefit to the 1991–92 budget and all future budgets:

- First, legislation was enacted to reduce the level of state mandates on local governments and thereby reduce the state expenditures constitutionally required for the reimbursement of local governments for the costs involved.
- Second, legislation was enacted to enable the state to obtain the lowest price possible in its purchases of pharmaceuticals and supplies in the state's Medi-Cal program. Prior state law prevented this.
- Third, legislation was enacted to improve the state's ability to collect taxes due it arising out of out-of-state real estate transactions.
- Fourth, the long-term fiscal health of counties was improved with the provision of a permanent revenue source to reimburse them for the administrative services they perform for other elements of local government with regard to the collection and distribution of property tax revenues.
- Fifth, the Public Employees Retirement System was placed on the same federal standards as private pension plans with regard to their recognition of capital gains and losses.
- Sixth, the State Teachers' Retirement System contribution rate was adjusted to ensure that this system, for the first time in its history, will totally cover the costs of the benefits it provides to retired teachers.
- Finally, administration of the state's corporate and personal income taxes was improved and simplified with adoption of federal rules and definitions on a number of accounting items and a variety of business transactions.

The Future

California's Constitution requires that the state have a balanced budget and contain a prudent reserve. The long-term structural reforms mentioned above and for which this Administration fought long and hard will guarantee these requirements can be met by future governors and legislatures. In the final analysis the Deukmejian Administration has demonstrated the will necessary to keep expenditures and revenues balanced. Future governors and legislatures must be willing to use these new budgeting tools in order that positive results continue to be obtained.